

NEWS: EUROPE

Shape up or be fired, Russian managers told

By John Lloyd in Moscow

RUSSIAN industrialists were warned yesterday that those who failed to improve their companies' performance would be sacked and replaced.

Mr Boris Fedorov, the new Russian deputy prime minister in charge of the economy and finance, issued the warning, stressing that the new government would have to crack down much harder on inflation and on the budget deficit than did the previous government of Mr Yegor Gaidar.

He said that Mr Viktor Chernomyrdin, the new prime minister, and his team - largely inherited from Mr Gaidar - would be "more decisive in the battle against inflation". In a direct criticism of Mr Gaidar, he said: "The Gaidar government was repeatedly accused of having a rigid monetary policy - but it did not. Billions of roubles were poured into the economy." A decree backed by Mr Chernomyrdin and signed by him on the last day of 1992 to control prices by extending profit controls on enterprises producing essential foodstuffs had, he said, been rendered null and void. "This government will not try to extend controls on prices."

The measures to be taken to restructure Russia's vast and generally inefficient state sector appear to conform to the ideas put up by some industrialists for a more active industrial policy by the state. This line was endorsed by President Boris Yeltsin, the Congress of People's Deputies in December and, in a more muted fashion, by Mr Gaidar himself.

Promising strong measures to combat unlimited credit

Ukrainian President Leonid Kravchuk announced yesterday that Ukraine and Russia had reached a tentative agreement on division of the former Soviet Union's foreign debts and assets, writes Christia Freeland in Kiev.

He said the proposal, agreed at meetings in Moscow on Friday, was now being considered by the Paris and London Clubs of creditors. Last week, the unresolved dispute between Ukraine and Russia over foreign debt forced western creditors to call off debt rescheduling talks.

Unlike the other former Soviet republics, Ukraine has been reluctant to accept the "zero variant", according to which Russia would assume responsibility for both debts and assets.

Instead, Ukraine has pressed Russia to disclose the full extent of the foreign assets of the former Soviet Union and has expressed readiness to independently pay its share of the debt.

Ukrainian officials said that, according to the deal, Ukraine would independently pay for a share of the foreign debt, a solution western creditors have strongly opposed in the past, fearing that Ukraine will be unable to meet its obligations.

advances to companies, Mr Fedorov said: "If the state supports enterprises, it has the right to get assurances that they will not exceed the resources given. Where the companies are state property it is the privilege of the state to reorganise those companies and to replace these managers



The designers of the new train for the Moscow underground showing Russian president Boris Yeltsin (front left) and prime minister Viktor Chernomyrdin (behind) the controls yesterday

accustomed to live an easy life by lobbying for credits."

Such a policy, he said, would mean that "you do not need to close enterprises". However, he did not rule out bankruptcies and said a "bankruptcy agency" would probably be created to oversee companies which were no longer viable.

Acknowledging that there were serious differences between the government and the Russian central bank, he said that Mr Viktor Geraschenko, the central bank chairman, would join the committee on credit policy set up under Mr Gaidar to attempt to control the bank's credit advances

- an obvious attempt to rein back the chairman. Mr Fedorov said that the central bank's job was to "strengthen the rouble, not keep up production". The bank should not relieve the enterprises of their debt burden by paying off the accumulated debt every six months.

W European car sales better than expected

By Kevin Dona, Motor Industry Correspondent

NEW CAR sales in west Europe jumped sharply in December thanks to an unexpected surge in demand in some of the biggest markets: Germany, the UK, France, Spain and the Netherlands.

According to industry estimates, west European new car sales in December rose year-on-year by 18.7 per cent to 575,000.

The higher level of new car demand in the final months of the year left sales for the whole of 1992 virtually unchanged at 13.5m.

Figures for several of the 17 markets across west Europe are still based on preliminary estimates, but the strength of demand in recent months has confounded carmakers' more pessimistic forecasts. According to industry estimates new car sales last year were less than 0.1 per cent lower than in 1991.

The decline in sales in several European markets in the past three years has been compensated for by the addition of eastern Germany, since mid-1990, to the overall market. Total west European new car sales have remained at a plateau of around 13.5m for the past four years.

Germany, the single biggest car market in Europe, again played a pivotal role in December with an estimated sales increase year-on-year of 33 per cent to 308,000.

The surge in December could depress sales this month, as purchases were pulled forward to avoid the increase in value added tax in Germany at the beginning of January.

The same happened in France, where new car sales were pulled forward into December by tax incentives, which helped to push sales to an estimated 221,000, up year-on-year by 33.5 per cent.

In the UK, sales last month jumped by 37.1 per cent year-on-year to 79,900, although special factors also distorted the picture, with registrations boosted by discounting and other heavy incentives, as well as a high level of sales to employees by some car makers.

Only Italy suffered a decline among the main volume markets in December with a fall year-on-year of 6.4 per cent.

Across west Europe sales

both in December and in the whole of 1992 were higher than a year earlier in nine markets and lower in eight.

Most importantly, new car sales in the whole of 1992 were higher than a year ago in four of the five leading volume markets: Italy, France, Spain and the UK - though only marginally in the case of the UK - while the estimated decline in German new car sales of around 5.1 per cent was much less than feared by leading car makers.

The industry remains pessimistic about the outlook for new car sales in 1993, however, with most industry forecasts suggesting a decline of around 4 per cent.

Japanese new car sales in west Europe fell last year by an estimated 4.8 per cent to around 1.59m, reducing the share taken by Japanese car makers to around 11.8 per cent from 12.3 per cent a year earlier.

The Volkswagen group of Germany, which includes Audi, Seat and Skoda, was the best-selling carmaker in west Europe for the eighth year in succession.

It boosted its market share to

a record 17.5 per cent from 16.4 per cent a year earlier and established a commanding lead ahead of its nearest rival, General Motors of the US.

Fiat of Italy, which includes Lancia, Alfa Romeo and Ferrari, was the main loser among the big five volume car-makers in west Europe. It slipped from second to fourth place behind VW, GM and the Peugeot group of France, which includes Citroën.

Fiat's sales volume in west Europe fell by an estimated 7.4 per cent to 1.6m last year following an 8.1 per cent decline in 1991.

Its market share fell to only 11.9 per cent from 12.8 per cent in 1991 and 14.2 per cent in 1990.

In the market for executive and luxury cars in west Europe BMW of Germany outdid its arch domestic rival, Mercedes-Benz, for the first time in its history.

BMW increased its sales by 7.2 per cent to around 445,000, while Mercedes-Benz was

Last year the company saw an estimated 8.6 per cent drop in sales to 413,000.

WEST EUROPEAN NEW CAR REGISTRATIONS

January-December 1992

	Volume (Units)	Volume Change (%)	Share (%) Jan-Dec 92	Share (%) Jan-Dec 91
TOTAL MARKET	13,506,000	-0.1	100.0	100.0
MANUFACTURERS:				
Volkswagen (incl. Audi, SEAT & Skoda)	2,385,000	+6.6	17.5	16.4
General Motors (Opel/Vauxhall, USG & Saab)	1,686,000	+3.1	12.5	12.1
Opel/Vauxhall	1,614,000	+3.1	12.0	11.5
Saab	51,000	-5.1	0.4	0.4
Peugeot (incl. Citroën)	1,846,000	+1.0	12.2	12.1
Fiat (incl. Lancia, Alfa Romeo, Ferrari Innocenti, Maserati)	1,805,000	-7.4	11.9	12.8
Ford (Europe, USG & Jaguar)	1,525,000	-5.2	11.3	11.9
Jaguar	1,512,000	-5.1	11.2	11.8
Renault	1,432,000	+5.9	10.6	10.0
BMW	443,000	+7.2	3.3	3.1
Nissan	434,000	-1.7	3.2	3.3
Mercedes-Benz	413,000	-8.6	3.1	3.3
Toyota	337,000	-2.5	2.5	2.7
Honda	331,000	-5.7	2.4	2.6
Mazda	269,000	-6.2	2.0	2.1
Volvo	196,000	-0.2	1.5	1.5
Honda	176,000	+1.6	1.3	1.3
Mitsubishi	160,000	-18.7	1.2	1.4
Total Japanese	1,588,000	-4.8	11.8	12.3
MARKETS:				
Germany	3,046,000	-5.1	29.2	30.6
Italy	2,375,000	+1.5	17.6	17.3
France	2,105,000	+7.7	15.6	15.0
United Kingdom	1,624,000	+0.1	11.9	11.8
Spain	979,000	+10.4	7.3	6.6

Source: industry estimates

Moscow invites Pretoria to missiles talks

By Layla Boulton in Moscow and Daniel Green in London

RUSSIA will this week invite South African officials to Moscow for formal talks on supplying Pretoria with converted SS-20 intermediate-range missiles to launch nine space satellites. Moscow has informally offered to launch South African observation satellites at one quarter the price of a western launch.

A formal offer is likely to heighten concerns among US

and European companies in the \$2bn-a-year commercial launch business that the Russians could price them out of the market.

The Russian offer is likely to draw a sharp response from the aerospace industries.

Mr Yuri Milov, deputy director of the Russian Space Agency, said the design bureau for the missiles, which are due to be eliminated under the INF (Intermediate Nuclear Forces) disarmament treaty, had already elaborated plans

to convert them to civilian uses.

But Russian authorities were anxious to put South African inquiries on an official footing, to avoid accusations of improper dealings with a nation that still faced western arms sanctions.

"Otherwise, the next thing we know the Americans will be screaming we are proposing to supply South Africa with strategic weapons," he said, recalling recent US attempts to block Russia's sale of rocket

engines to India for satellite-launching.

Informal contacts between Moscow and Pretoria have already been made through the Bonn office of the South Africa Foundation, a private-sector lobby group. Moscow had offered launches at \$10m each on SS-20s, Mr Rudolf Gruber of the SA Foundation said. Similar launches cost \$40m in the west.

Mr Gruber said Russia would bring mobile SS-20 launchers to South Africa and

remove the equipment after launch to comply with the terms of strategic arms reduction treaties signed with Washington.

The Ukrainian design bureau, which produced the much larger SS-16 long-range missiles, due to be eliminated under the Start 2 treaty, was also trying to find civilian customers.

The SS-16 multiple warhead technology meant all nine satellites could be launched together.

Italy moves nearer reforms

Politicians must decide which way to jump, Robert Graham writes

LECTORAL reform in Italy has finally been removed from the level of mere rhetoric.

Parliament now has to come up with proposals in the next two months or its hand will be forced by a referendum to be held between April 18 and June 13, in any event the legislation will have to respect the spirit of the referendum proposals approved on Saturday by the country's constitutional court.

This is the immediate effect of the court's historic ruling on 13 referendums, of which 10 were approved. But admitting the referendums will have a much broader impact on the whole issue of reforming Italy's institutional structure, put in place by the 1947 constitution. As one commentator said: "This is the end of the First Republic and the beginning of the Second."

The two most important referendums concern the abolition of the existing system of proportional representation in favour of a first-past-the-post system. Italy's electoral system was geared to a country emerging from fascism into the cold war. Proportional representation was intended to foster minority parties and discourage monolithic groups like the Communists or disbanded fascists. But this has created 52

unstable coalition governments and an unworkable fragmentation of parliamentary parties - with no fewer than 16 represented after last April's general elections.

One specific referendum proposal is for 238 of the senate seats to be elected by majority vote and the remaining 77 on the existing method of proportional representation. Another extends the majority vote to municipalities of over 5,000.

Although the proposal covers only majority voting for the senate and municipal elections, all parties recognise that the principle extends by implication to the more powerful legislative forum, the chamber of deputies. Equally, the other referendums, which include the abolition of public funding of political parties, will accelerate a general revision of the existing institutional structure.

The need for change was emphasised by President Oscar Luigi Scalfaro in his inaugural address last May 29 when he took the unprecedented step of calling for a special parliamentary commission.

The latter was formed in September from both houses of parliament and was in part intended to head off the cross-party referendum alliance, led by Mr Mario Segni, who already had before the courts

his proposals for the Senate election change.

However, none of the parties has yet made clear whether it prefers a majority vote based on a British-style single round or the French system of a second-round run-off where a majority has not been obtained the first time.

The politicians must now decide whether to work for an agreement in the commission and produce proposals which head off the referendum - or wait until after the referendum result is known. The latter course is most likely. Time is too short, and enough politicians believe their ambitions will be furthered by riding the referendum wave, which will almost certainly triumph, given the discredit of the traditional parties.

Mr Mino Martinazzoli, the Christian Democrat leader, candidly commented: "We would rather avoid the referendum, although frankly at this stage I fear we cannot. Nevertheless, if the referendum is held we will be protagonists and not be overtaken by the event."

This suggests the Christian Democrats will try to ensure the referendum vote is not a popular judgment on their role

in government. When the last referendum was held in June 1991, to eliminate multi-preference voting within the proportional representation system, the Christian Democrats and Socialists badly misread the public mood, opposed it and were duly castigated. Indeed it will be surprising if every political party does not jump on the referendum bandwagon.

But if this happens, it will merely speed the process of change and at the same time encourage the nascent cross-party alliances.

With electoral reform pushed to the top of the national agenda absorbing all the parties' attention, Prof Giuliano Amato's coalition government should benefit. With the exception of the hardline Reconstructed Communism and the Lombard League, no party now has an interest in ending his fragile coalition until the lines of a new electoral law have been agreed and probably approved by parliament.

On this basis the government has until the summer, and then it will be for the politicians to decide whether to call early elections or expand the government to obtain a broader consensus in order to introduce comprehensive constitutional reforms.

Special factors affect November figures

French output declines 4.5%

By David Buchan in Paris

THE FRENCH national statistics office, Insee, yesterday announced that the country's industrial output fell in November by 4.5 per cent, a sharp drop that will further entrench economic recovery as the main issue in the March elections.

The exceptional decline was largely due to special factors causing a 12 per cent drop across the range of energy production, with a refinery explosion limiting oil output, mild weather reducing gas demand, and sluggish industry

depressing demand for electricity.

The reduction in manufacturing output in November from the previous month's level was a more modest 2.1 per cent.

Nonetheless, at the very least growth in the French economy seems to have flattened out in the fourth quarter of last year, after a 2 per cent in gross domestic product between January and September and a 0.7 per cent rise in industrial output in October.

Prime Minister Pierre Bérégovoy last week abandoned the official forecast of higher

growth this year. Both government and opposition have conceded that no reduction in the unemployment mountain of nearly 3m people - the main casualties of low growth and high interest rates - is likely until 1994.

The Bank of France intervened to the tune of FF156.2bn (\$28.9bn) to defend the franc in the seven weeks following mid-November and FF16.6bn in the first seven days of this year, according to the economic studies department of state-owned bank Crédit Lyonnais, Renter reports from Paris.

East German investment worry

By David Marsh

FOREIGN companies seeking to invest in east Germany widely believe they suffer discrimination compared with indigenous groups, according to a report published today.

The report, from the Anglo-German Foundation for the Study of Industrial Society, says foreign companies can overcome this handicap by emphasising the competitive advantages of foreign investment in the east. Foreign com-

panies have made up about 10 per cent of investment channelled to east Germany through privatisation of state industry holdings since reunification.

France, the UK, the Netherlands and Switzerland are the main European countries making east German acquisitions. The Treuhands, the government agency in charge of privatising east German assets, has been increasingly trying to promote foreign participation to spur competition.

The Anglo-German Founda-

tion advises foreign bidders to use this argument to support their investment efforts.

Additionally, foreign companies can argue that their acquisitions would prevent east German companies becoming secondary outlets, subordinate to parent companies in western Germany.

*British investment in a united Germany. Anglo-German Foundation, 17 Bloomsbury Square, London WC1A 2LP, or Jean-Paul-Strasse 12, 5300 Bonn 2.

Danes turn towards Maastricht

By Hilary Barnes in Copenhagen

A LARGE and increasing majority in Denmark supports the Maastricht treaty, according to an opinion poll published yesterday.

The treaty is due to be submitted to a second referendum in Denmark later this year. The poll showed that 56 per cent would vote yes, 30 per cent no, and 14 per cent were undecided.

It was conducted on January 11 and 12, before the publication of the Taml report, on Thursday, and the consequent resignation of Prime Minister Poul Schlüter.

This compares with a December poll in which 51 per cent were in favour, 37 per cent against and 12 per cent undecided. In last June's referendum on the treaty 50.7 per cent voted in favour of the treaty and 49.3 per cent against. The date of the second referendum has not yet been set but it is expected it will be held in May.

European petrochemicals reform 'could save \$2bn'

By Paul Abrahams

EUROPE'S petrochemical industry could save as much as \$2bn (£1.3bn) a year if it restructures, according to a confidential survey of 34 plants representing 75 per cent of European capacity.

The survey*, by consultants Chem Systems in London, demonstrates the current plight of the petrochemicals and plastics sector. It estimates that even the most efficient producers are generating a minus 5 per cent return on capital. The worst producers are performing far worse than that.

The industry has been hit by a

combination of slower than expected demand growth and chronic overcapacity. The quickest and cheapest way to improve the industry's cost structure is to concentrate the industry, eliminating the smallest and least efficient plants. This would leave between eight and 13 producers but still ensure healthy competition, claims Mr Roger Longley, a Chem Systems director.

Merely by reducing the number of polypropylene producers from 17 to 11 the industry would save \$260m a year, he argues.

The survey also demonstrates most petrochemical and plastics plants are highly inefficient. If the

most efficient European plant adopted the best practice of other plants in terms of staffing, maintenance, overheads, utilities, credit and logistics, it could make fixed-cost savings of \$78 per tonne.

The worst practices in existing plants add up to more than \$230 per tonne higher than best practice. The difference between the worst and best plant is \$153 per tonne. This excludes differences in raw materials - the few plants using liquid petroleum gas have a significant cost advantage over those using naphtha.

The report adds that a properly integrated plant can create revenues

worth more than \$100 per tonne of ethylene. It says few refiners integrate their plants effectively.

"The bottom line message is clear and brutal," says Mr Longley. "Management in almost every company has failed to address inefficiencies."

The industry's ability to sort out its problems has been lessened since the early 1980s, because about 20 of the least efficient plants were shut down at that time, warns Mr Longley.

The position of EC manufacturers is likely to deteriorate as they face increasing competition from imports. The consultants also warn that

imports could take 40 per cent of the Ethylene Glycol market by the year 2000. European petrochemical manufacturers face an additional problem with the build up of environmental costs. It says the cost of complying with a carbon tax would add up to \$22 to the cost of ethylene produced and \$34 to the cost of high density polyethylene.

Chem Systems reckons European polyethylene could face environmental costs of up to \$80 a tonne compared with imports.

*European petrochemical strategy in the 1990s. Chem Systems, 28 St James's Square, London, SW1Y 4JH, +44 71 839 46 52, 225,000.

PETROCHEMICAL PROCESSING EFFICIENCY (\$/metric ton ethylene)

	Best - Leader	Leader - Worst
Manpower	2	15
Maintenance	16	28
Overheads	25	38
Utilities	15	40
Logistics	15	15
Credit	5	16
Total	79	158

*Difference between best in each sector and overall cost-base leader.
†Difference between worst in each sector and overall cost-base leader.

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Moslem-Croat clash threatens peace plan

By Robert Mauthner,
Diplomatic Editor

A CRUCIAL Bosnian Serb vote due today on an internationally brokered peace plan for Bosnia has been overshadowed by the outbreak of heavy fighting between Moslems and Croats, theoretically allies in the war against Serbs.

The battle around Gornji Vakuf, a town in south-west Hercegovina near the Adriatic, appears to have been provoked by the Geneva peace process itself, particularly the map tabled by the international mediators, Mr Cyrus Vance and Lord Owen.

Bosnian Croat forces have attempted to consolidate their positions in areas designated as Croat-controlled on the map, which divides the proposed future state of Bosnia-Herzegovina into 10 semi-autonomous provinces.

That map, which is disputed both by the Moslems and Serbs, has been formally approved, so far, only by the Bosnian Croats. When the Bosnian defence minister, Mr Bozo Rajic, a Croat, ordered several Moslem army units to submit themselves to the Croatian command at the weekend, Mos-

lems saw the move as pre-empting a peace settlement that had not yet been reached.

The fighting has intensified following an order to Moslem troops by the Bosnian Moslem army commander, Mr Sefer Halilovic, to ignore the order to submit to the Croat command. The Moslem Croat flare-up threatens to undermine the peace process just as the Bosnian Serbs appeared to be completely isolated in the Geneva negotiations. Their leader, Mr Radovan Karadzic, was forced to make a humiliating about-turn at the conference last week, when President Slobodan Milosevic of Serbia put strong pressure on him to accept the mediators' constitutional framework for Bosnia-Herzegovina.

However, Mr Karadzic agreed to do so only on condition that the Bosnian Serb assembly approved the proposal within a week. The assembly's vote today, at the Bosnian Serb headquarters in Pale, near the besieged Bosnian capital of Sarajevo, is expected to be close.

But the indications are that hardline deputies, who make up the majority of the assembly, may be won round by the

arguments of Presidents Milosevic, President Dobrica Cosic of the rump Yugoslav Federation and Momir Bulatovic of Montenegro, all of whom have said they would attend personally to support the case for acceptance. Mr Nikola Koljevic, one of the three Bosnian Serb vice-presidents, said at the weekend that he hoped the fighting, which includes renewed Moslem-Serb clashes in eastern Bosnia, would not threaten the peace process.

"I hope the leadership of the (Bosnian) Serb republic will be able to explain that the Geneva proposal is in our best interests and represents a major step towards peace," he was quoted as saying by the Bosnian Serb news agency.

It is clear, however, that even if the Bosnian Serb assembly gives the green light to the Vance-Owen constitutional principles, the road to a final peace settlement remains long and hard. In addition to the map dispute, the terms for a permanent ceasefire and troop pull-back, and particularly the placing of all heavy arms under United Nations control, are also likely to be disputed when it comes to negotiations of the details.

Kosovo shudders under the yoke

Jonathan Ledgard reports on Albanians' resentment at the rule imposed by Serbia

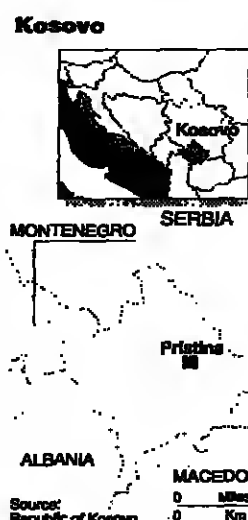
IN THE cramped and freezing hangar which houses Kosovo's outlawed ethnic-Albanian parliament, 14-year-old Lumzim was giving his testimony. He looked shocked and close to tears.

Lumzim (not his real name) had saved DM200 (\$288) selling cigarettes on the streets and had planned to travel to friends in Albania with the money. On the way to the bus station, he said, four Serbian policemen stopped him, stripped him naked in the freezing cold and found the money pinned to the inside pocket of his jeans.

They beat him, stole his passport and money and forced the pin down his throat. An x-ray shows the two-inch pin lodged in his stomach. It would take an operation to remove it, but Serbian-controlled hospitals have denied care to Albanians.

The incident is part of the systematic political and human rights abuse, identified by international human rights organisations, inflicted on ethnic Albanians, who make up 90 per cent of Kosovo's population.

Kosovo used to be an autonomous province of former Yugoslavia until it was reincorporated unilaterally into Serbia three years ago by Mr Slob-



Kosovo
Source: Republic of Kosovo

dan Milosevic, its Communist-turned-nationalist leader.

Serbia, resentful that 500 years of Ottoman rule and the high birth rate of ethnic Albanians has made them a tiny minority in the former cradle of Serbia's medieval kingdom, voted overwhelmingly for ultra-nationalists in last month's general elections - boycotted by ethnic Albanians. The outcome has raised the tension level and the risk of an Albanian revolt which, once unleashed, would

invite Serb repression on a scale which could provoke irresistible demands for intervention from the Moslem world.

It is a testament to the repression in Kosovo that Zeljko Raznjatovic, better known as "Arkan" and described by the US government as a Serbian war criminal, was elected to the all-Serbian parliament, and operates openly from the lobby of the Grand Hotel. He dresses fashionably and is guarded by thuggish veterans from the earlier fighting in Vukovar and other war-torn towns and villages in Croatia.

In an interview he made clear his unconcern about his reputation and the war criminal tag put on him by Mr Lawrence Eagleburger, US secretary of state. "I don't give a damn about Eagleburger and his damn trial. He is more of a war criminal than I am," he says.

While extreme nationalists won most of the seats in the December elections, the Democrats led by Mr Milan Fatic, who were the only group prepared to compromise over Kosovo, did not even win a seat. This is bad news for ethnic Albanians, although Arkan claims they have nothing to fear. "If the Albanians are honest and look to Belgrade we

welcome them," he says. "If it is Tirana, the Albanian capital they look to, we'll help them back."

Most ethnic Albanians here demand independence for Kosovo, rather than union with even more impoverished Albania across the mountains. But, asked about the clandestine ethnic Albanian government headed by self-styled president Ibrahim Rugova, Arkan was ominously dismissive. "Rugova is a tourist in Serbia, an Albanian tourist. He will be leaving very soon, believe me."

Mr Rugova is trying to keep the peace, and it is proving very hard. The Serbs have shut all the Albanian media, but with every arrest and killing of an Albanian by Serbian authorities the country people, for whom the vendetta, or *kahm*, is still a cherished way of death, are becoming more restless.

Mr Rugova and other ethnic Albanian intellectuals are haunted by the knowledge that any war would end in slaughter of the unarmed Albanians, half of whom are under 15 years of age. The Yugoslav civil war has been fought from the hamlet up. Kosovo will be no different. To stop a bloodbath here, the United Nations would have to

deploy massive peacekeeping forces on the ground in the rural communities and emasculate the Serbian authorities. This seems improbable.

Young ethnic Albanians say they are prepared to die. "We would rather die than be Serbian slaves," said one group of students.

Many Serbs think the same way. "Only war will sort this mess out. That's why I voted for Slobodan Milosevic. He will protect us from the Moslems, from genocide," said a working-class Serb in the Kosovan capital, Pristina.

Such views are common and there is almost no middle ground. Albanians want to be free and Serbs want back what they see as their cultural heritage. Arkan's cause is also clear.

He will use all means available to crush Albanian hopes of independence.

But even Arkan fears clan-nish Albanian culture and has sponsored the inflow of Serb immigrants. He and his followers exude violence and the hatred between Christians and Moslems here is tangible. As a warlord, Arkan has already become rich through war. Many fear he also has a personal interest in seeing war and the opportunity for pillage spread to Kosovo.

German Greens in merger

By Ariane Genillard in Bonn

WESTERN Germany's Green party, once the strongest ecological movement in Europe, is to unite with Bündnis 90, a pro-environment group in the eastern part of the country, in a joint-party conference in May.

The move is designed to regain a foothold in the federal parliament, which the west German Greens lost in the last elections after narrowly failing to get the required 5 per cent of the vote. Bündnis 90, a loose anti-communist movement allied with the east German Greens, won 5.6 per cent of the vote in eastern Germany.

The marriage of convenience was welcomed by the opposition Social Democrats who hope to find a coalition partner if they gain power in Germany's next general elections, scheduled to take place at the end of 1994.

But Mr Uwe Lühr, secretary-general of the liberal Free Democrats, the minority party in the government coalition, called the merger "an act of desperation".

SPD urges probe on contract

By Quentin Peel in Bonn

GERMANY'S opposition Social Democrats (SPD) yesterday demanded clarification of the circumstances surrounding a DM3bn (\$1.8bn) contract for a US-manufactured high altitude reconnaissance system, which has been put on ice pending an investigation into possible corruption.

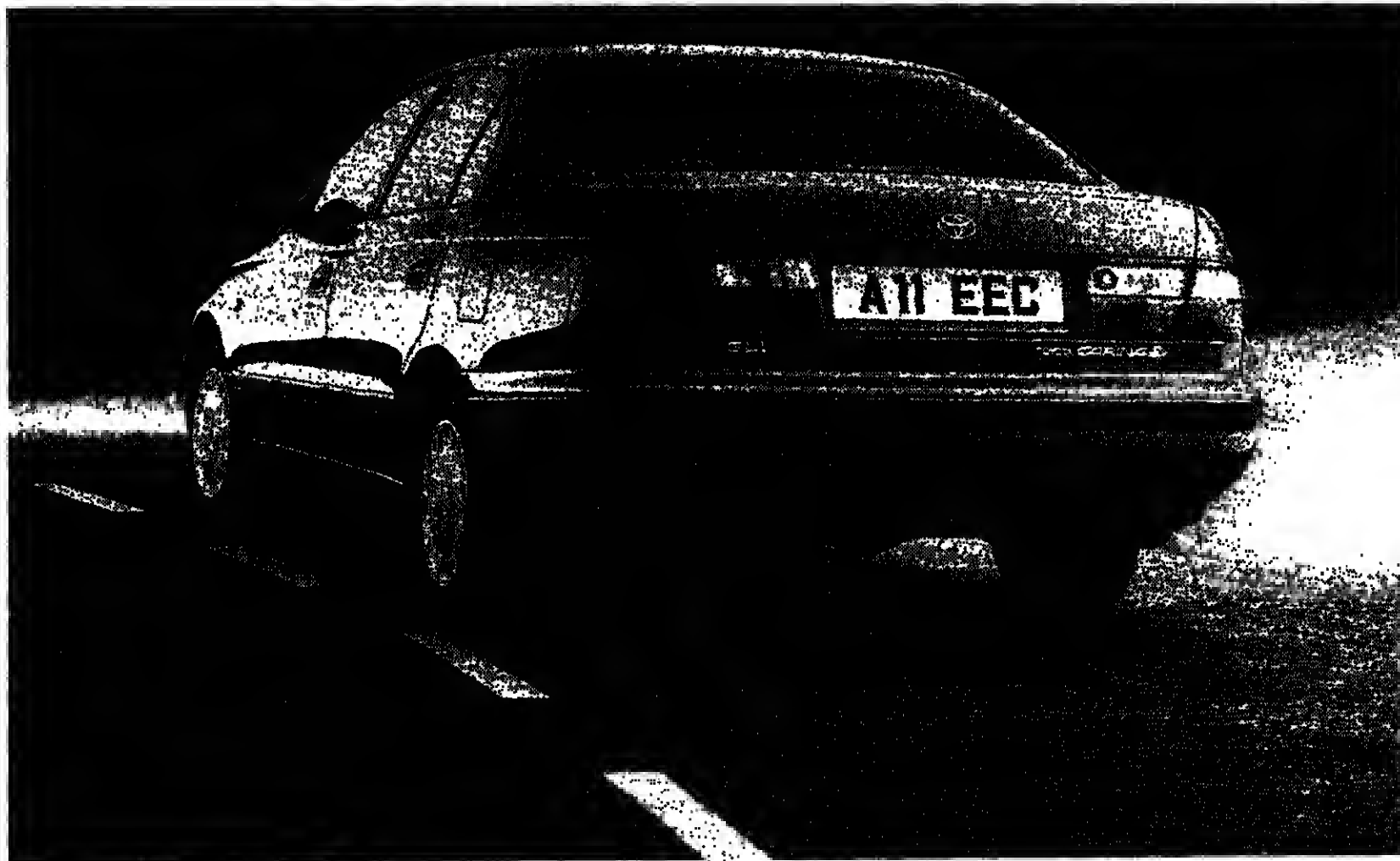
The signing ceremony for the Lapas system, made by E-Systems, of Greenville, Texas, was cancelled on Friday by Mr Volker Rühe, the German defence minister.

The system, capable of monitoring and evaluating electronic information from high altitude, was intended to be carried by 11 aircraft built by the Bavaria-based company Grob Luft- und Raumfahrt.

The contract would have been the most important new collaborative venture between US and German defence contractors.

The inquiry concerns two civilians formerly employed in the Defence Ministry, and the former Luftwaffe inspector, General Eberhard Krimler.

WHY WALES PUTS THE POWER IN THE CAR IN FRONT



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CONFLICT WITH IRAQ

Allies leave themselves a wide range of target options for future attacks

Raids designed to give clear message

By David White, Defence Correspondent

FOR ALL the signs of rapid military escalation, the three waves of attacks against Iraq by the US and its British and French allies, in the space of less than five days, were all characterised by their limited scale.

By not attacking some obvious targets, such as key military installations in central Iraq, the coalition has reserved its options for further action against a recalcitrant President Saddam Hussein.

The US has appeared anxious to demonstrate, particularly after the dubious results of the first attack last Wednesday, that it can hit Iraq when and where it chooses.

The weapons and targets have been the same as or similar to those of the Gulf war air campaign two years ago. But operations that were combined during the six weeks of attacks in early 1991 have been carried out separately. The allies want their action to be clearly seen as a specific response to Iraqi acts of defiance: movement of missiles in patrolled regions, stalling over UN inspections and unauthorised forays into Kuwaiti territory to retrieve material.

A further echo of the 1991 war is the combination of warlike rhetoric from Baghdad and unwillingness in practice to engage the US-led allies in combat. This is frustrating to

attackers seeking to destroy air defences since their tactics are geared to homing-in on targeting radars and to air-to-air combat.

The main action yesterday morning was against two Iraqi air defence sites where Wednesday's attack was incomplete: al-Najaf, on the 32nd parallel, which forms the border of the southern no-fly zone, and al-Samawa, just

The US has appeared anxious to demonstrate that it can hit Iraq when and where it chooses

inside that line and further to the east.

The allies have clearly been at pains to try to measure their action to make it commensurate with Iraqi challenges to UN authority and have also sought to minimise the risk to their own personnel.

According to UK officials, 43 allied aircraft took part in yesterday's action in southern Iraq, including 29 US and British attack aircraft and US and French fighters.

This was considerably fewer

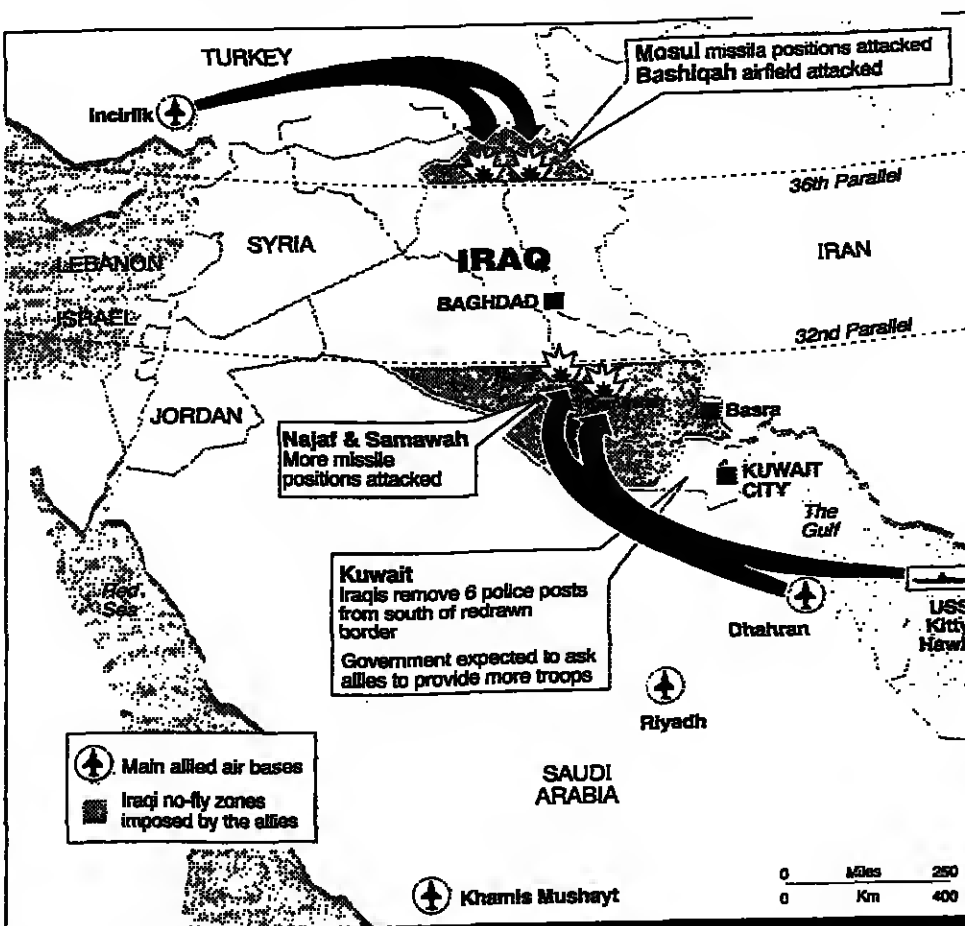
than took part in last Wednesday's night attack against eight sites. In neither action did the allies attack air bases further to the north from which Iraqi aircraft have infringed the no-fly zone in recent weeks.

The cruise missile attack on Sunday against an engineering complex outside Baghdad, alleged to have produced nuclear-related equipment, is seen as having more political than military significance, as a demonstration of US firepower. It involved more than 30 Tomahawk missiles fired from warships in the Gulf and the Red Sea and was the only time these weapons have been used, except in the Gulf war.

The decision to return to sites in southern Iraq can be seen partly as a bid to restore US military pride after criticism over the failure to destroy some of the targets last week.

The targets did not include the al-Amarah facility assigned to the RAF Wednesday. The RAF said yesterday that a headquarters building at Al-Amarah had been completely destroyed by laser-guided bombs dropped by British Tornados, and an intercept control facility was probably put out of operation.

It remained to be seen if Iraq still possessed operational facilities of this kind for co-ordinating its air defences in the south. Officials warned that Iraqi forces would still be able to operate some anti-aircraft



systems independently of the centralised control systems.

Further attacks in the northern no-fly zone focused on surface-to-air missile radars and anti-aircraft guns. This followed incidents in which radars locked on to allied aircraft, including two UK Jaguars flying yesterday on a reconnaissance mission from their base in south-eastern Turkey, which also came under fire from anti-aircraft artillery.

An Iraqi MIG-23, shot down by a US F-16 in northern Iraq on Sunday, was the second such incident, a MIG-21 having been downed on December 27.

Allied officials said they had no indication that Iraq had fired any missile towards the Arabian peninsula. This followed one report yesterday morning suggesting that a Scud missile might have been fired at the Saudi base of Dhahran and been shot down.

Use of a Scud missile would constitute the most serious of any provocation by the Iraqis in the recent confrontation. Under the terms of its 1991 ceasefire Iraq had to declare all its missiles able to reach targets more than 90 miles away, and these were scheduled for destruction. However, Baghdad is believed to be harbouring an unknown number of Scud missiles from its previous Soviet-supplied stockpile.

Damage goes on display in Baghdad

By James Whittington in Baghdad

IRAQ was at pains yesterday to show the world the civilian damage inflicted by the allied missile attack on Baghdad two years to the day since the beginning of the Gulf war with President Saddam Hussein visiting the injured in hospital. But his propaganda machine left the main point of interest and the reason of Sunday's attack a mystery.

Three sites hit by missiles have been confirmed: the lobby of the Rashid hotel in Baghdad was badly damaged, a house in the suburb of Karada was half-demolished and a factory in Zafaraniya, 10 miles south of Baghdad and the announced target of the allied attack, was hit.

Western journalists, despite being escorted to the two civilian sites, were denied access to the factory at Zafaraniya. Described as a nuclear site by the allies and a facility for manufacturing industrial equipment by the Iraqis, an army official prevented an organised Ministry of Information tour of the site, despite the fact it had been viewed by some journalists immediately after the bombing.

"Yesterday was one day, today is another, he said.

The government took advantage of the high-profile Rashid bombing by holding a funeral for the two people who were killed in the hotel.

Escorted by a ceremonial

army brass band, a large group of dignitaries, hotel staff and mourning relatives, the coffin of Amertha Toma, a receptionist at the hotel, and a female guest were marched to a burial site to the accompaniment of a funeral dirge.

Soon afterwards, more than 1,000 delegates at the Sixth Islamic Conference, who were removed to another hotel after the bombing last night, descended on the hotel to conduct the day's proceedings, and Rashid staff attempted to convey a sense of business as usual.

It was the same all over Baghdad. Iraq has been under siege in military and economic terms almost continuously since the beginning of the Iran-Iraq war in 1980, coping in tragic circumstances has become a way of life.

However, a sense of despair was apparent after Sunday's attack, and disbelief that the capital was once again under fire from the allies. At the Karada site, where one woman was killed and her two daughters injured when their house was hit by a missile, Dr Mohammad Dowee, a military doctor and neighbour whose three daughters were injured by shattering glass, accused the allies of not caring about Iraqi civilians.

"If people [in the west] saw the exact picture, they wouldn't agree with what happened here. Killing ordinary Iraqis will not help enforce their demands," he said.

Kuwait still rebuilding its armed strength

By Mark Nicholson in Kuwait City

THE CLASHES in the Gulf over the past week have highlighted the continuing weakness of Kuwait's armed forces. They are still in the earliest stages of rebuilding after the Gulf war two years ago and do not alone have either the manpower or equipment to mount a credible military deterrent to Iraq.

A pre-war total of around 23,000 armed forces personnel has shrunk to nearer 16,000 after Kuwait's military authorities ejected thousands of Bedouin, or stateless Arabs, who made up the core of the army's fighters, judging their loyalty to be suspect after the Gulf war.

Although Kuwait's air force is at present being reinforced by the arrival of 40 F-18 jets ordered before the war - a few of which joined the first allied raid against southern Iraq last

week - the undermanned ground force is equipped only with 150 Yugoslav-built M84 tanks and little support equipment.

Recently-ordered M1A2 tanks from the US are unlikely to be in effective service for up to two years, and Kuwait has still not decided on a large contract for armoured personnel carriers. The country has no air defence system of its own, relying for radar cover on US early-warning aircraft operating out of Saudi Arabia.

However, western officials in Kuwait say there are ample forces in the country to deal with any Iraqi aggression. Last week the US deployed a 1,100-strong US task force equipped with pre-positioned M1A1 tanks and Bradley fighting vehicles. It also has 300 special forces troops on exercises in Kuwait. A small Gulf force, including a Saudi Arabian armoured brigade, is also still based in Kuwait.

Diplomats say that Iraq's remaining ground forces, which at best represent 40 per cent of the country's pre-war military strength, are tied up in northern Iraq and in continued fighting with Shia groups in the south.

Several Republican Guard units are at present deployed around Baghdad. "There's no way any force of any size could turn south and head for Kuwait," said one.

Western officials also discount any threat from whatever Scud missiles Iraq may have kept hidden from UN weapons inspectors.

Although no one rules out the possibility that Iraq may be able to launch one or two missiles, this alone would represent no significant threat, not least because of the continued presence of Patriot anti-missile missiles in Saudi Arabia and - it is believed though officially denied - also in Kuwait itself.



A Kuwaiti citizen inspecting the inside of a US armoured vehicle yesterday as troops prepare them for exercises in northern Kuwait

Legal basis for action is unclear

By Edward Mortimer

THE LEGAL status of the latest hostilities in the Gulf is confused by two separate Security Council resolutions, which differ in form and content.

Resolution 687, passed on April 4, 1991, embodies the formal ceasefire terms imposed on Iraq by the UN at the end of the Gulf war. Iraq was required to accept it, and did so, as the alternative would have been a resumption of hostilities.

Violations of it amount to breaches of the ceasefire, and therefore the powers which fought the war (with the authorisation of the Security Council under an earlier resolution, No 678) consider themselves legally entitled to respond to such violations with military force.

Resolution 688, deals with the internal affairs of Iraq. It was a response to President Saddam Hussein's suppression of the uprisings in both south and north that followed his defeat in the war. The attack on the Kurds, especially, caused an outburst of revulsion and guilt in western countries as well as serious alarm in Turkey, which found itself facing a refugee crisis.

The Security Council condemned the repression and demanded that Iraq put a stop to it; called for a "broad dialogue" aimed at ensuring respect for "the human and political rights of all Iraqi citizens"; and insisted that Iraq allow international organisations access to all those who needed help in any part of the country.

It did not, however, threaten any action to enforce these demands if Iraq failed to comply with them. Western powers frequently refer to Resolution 688 to justify the military action they subsequently took, first to establish a "safe haven" for the Kurds in the north of the country, and more recently to create a "no-fly zone" in the south - the latter being supposed to inhibit repressive activities against the Shia Moslem population, and particularly against both refugees and indigenous inhabitants in the marshes of lower Mesopotamia, close to the Iranian frontier.

But the text of the resolution contains no reference to any such action. There has been intermittent talk of a new resolution to back up 688 and make it enforceable. But so far none has been submitted.

Formal de-recognition of Mr Saddam's regime might be a necessary first step.

The US and its allies seem to be on stronger legal ground in taking military action to deal with incursions across the Kuwaiti border, or with obstruction of the UN inspection missions, verifying the destruction of Iraq's non-conventional weapons facilities, than they were in proclaiming the no-fly zones or in using military force to impose Iraqi compliance with them.

British MPs uneasy over drift towards greater conflict

By Philip Stephens, Political Editor

THE RENEWED military action against Iraq brought the first signs of unease among British politicians yesterday over whether the western allies have framed a coherent strategy to respond to President Saddam Hussein's defiance of the United Nations.

But Downing Street, warning of the possibility of renewed attacks unless Baghdad meets its UN obligations, rejected opposition suggestions that the west should seek a

further mandate from the Security Council.

Prime Minister John Major's support for the latest two strikes was endorsed by Labour and Liberal leaders after government assurances that the attacks were fully in accordance with international law and the terms of existing UN resolutions. A dozen left-wing Labour MPs opposed to the strikes failed to secure an emergency parliamentary debate on the conflict.

But concern voiced by opposition spokesmen about the allies' long-term approach to the Iraqi

leader was echoed by some senior Conservative MPs after a House of Commons statement by Mr Malcolm Rifkind, the defence secretary.

Mr David Clark, Labour's shadow defence secretary, and Mr Mendis Campbell, the Liberal Democrat spokesman, called for renewed debate in the Security Council to secure the broadest possible coalition against Iraqi provocation.

Cautioning that the allies could be drifting towards another bout of large-scale hostilities, Mr Clark said that they needed to re-establish a

coherent and long-term strategy towards Iraq.

Mr David Howell, chairman of the influential foreign affairs committee of backbench MPs, added that military action should be underpinned by a political and diplomatic strategy designed to bolster internal Iraqi opposition.

Mr Rifkind stressed repeatedly that the three countries involved in the latest strike were carrying out the will of the UN. In southern and northern Iraq the allies were acting in self-defence against an Iraqi military threat to aircraft monitoring

the UN-hacked no-fly zones. The cruise missile attack was a measured and proportionate response to Baghdad's refusal to allow free access for UN weapons inspections teams.

Officials added that there was no need for the west to seek a renewed mandate from the Security Council as long as its response remained proportionate to Iraqi defiance.

But there was acknowledgement in Whitehall that if Saddam does not back down, it will be increasingly difficult to allow piecemeal escalation. Mr Rifkind said repeatedly yes-

terday that military action was a last resort. But he offered no other real alternatives.

Mr Major is acutely conscious of the need to remain with a UN framework and of the concern in the Arab world about the legitimacy of repeated strikes.

He spoke personally no fewer than six times to outgoing President George Bush over the weekend before final approval for the latest two strikes was given.

But MPs at Westminster are no longer sure where military action is taking them.

Opposition to Saddam forms a perplexing mosaic

There are many rival groups, and the west is not sure about any of them, reports Gareth Smyth

FOR THE US and its Gulf war allies the most desirable outcome of the renewed military pressure on the Baghdad regime would be the overthrow of President Saddam Hussein. But that, too, would pose another acute dilemma for Washington as it tries to assess the Iraqi opponents of the regime and their chances of coming to power.

A Middle East analyst advising the incoming Clinton administration admitted yesterday: "US policy [on the Iraqi opposition] is that we have no policy, basically because we don't know any of these guys."

The complex divisions and rivalries within the ranks of the Iraqi opposition reflect the frustrations of exile, the influence of regional powers and Iraq's multi-cultural nature.

Iraq is an ethnic and religious mosaic. Since the days of Ottoman rule its elite has been

drawn from the Sunni Arabs who today occupy most high posts in the ruling Baath party. Living mainly in the centre of the country around Baghdad, they make up barely one fifth of the population.

A quarter of Iraqis are Kurds, who are Sunnis but not Arabs. Some 55 per cent are Arab Shias, who share their religious traditions with Iran.

The principal holy cities of Shiism, Najaf and Kerbala, are in southern Iraq, where Ayatollah Khomeini, the spiritual leader of the Iranian revolution, spent many years in exile. During the eight-year war with Iran the Shias fought alongside fellow Iraqis, but Mr Saddam, Saudi Arabia and the US all fear links between Iraq's Shias and Tehran.

Iraq's two biggest Islamic umbrella groups, al-Dawa and the Supreme Council for the Islamic Revolution in Iraq

(Sciri), form the backbone of resistance to the regime in the southern provinces of Najaf, Amarah and Basra.

Other than the Kurds, they are Saddam's only opponents with armed militias inside Iraq. Both groups are Tehran-

Turkey yesterday distanced itself from the US-led attack on Iraq, insisting that allied aircraft had acted in self-defence in bombing anti-aircraft installations in northern Iraq, writes John Murray Brown in Ankara. It maintained the mis-

based and not natural allies of the US.

The London-based Iraqi National Congress (INC), founded in June last year, is more palatable to the west and was able to claim a degree of de facto recognition when a deputation met Mr James

Baker, then US secretary of state, last July.

The INC is a coalition of Kurds, liberal Shias and some moderate Arab nationalists including former Baathist leader Mr Hani Fakhri. Its programme promises a single,

democratic, multi-party Iraq but with Kurdish aspirations recognised. The INC wants wider western involvement in Iraq. It called last week for a UN security zone in south Iraq, a tribunal to try Mr Saddam for crimes against humanity, and

direct UN responsibility for all humanitarian assistance.

The INC's support within Iraq remains hypothetical. Iraq has changed since many of its leaders were forced into exile, and a large part of the population has been born since Mr Saddam became president.

The INC has tried unsuccessfully to co-opt the Islamic groups, who because of their operations inside Iraq are unwilling to be marginalised in any unified structure. Discussions are continuing but INC leaders remain sceptical of the Islamic groups' commitment to pluralism. The Islamic groups equally doubt the extent of concrete western support on offer to a unified opposition.

Saudi Arabia and Syria have both derided the INC. Although hostile to Mr Saddam, they fear the influence of the Shias and are suspicious of democracy. Both governments

have resisted the creation of a unified opposition and sponsor small groups of Iraqi Arab nationalists whom they would like to see in power.

In the north of Iraq some 50,000 sq km have been administered by Kurdish guerrillas since autumn 1991, when Mr Saddam withdrew his administration and imposed an economic embargo. A coalition of Kurdish parties has created a fledgling state, elected a parliament, and hosted an opposition conference in "liberated Iraq".

But the Kurds are short of food, fuel and spare parts. The Iraqi government channels UN relief from Turkey through a checkpoint which according to the Kurds allows only about 10 trucks a day to pass.

Mr Saddam has suggested resuming negotiations with the Kurds, which broke down in

1991. He has offered to accept Kurdish autonomy with jointly supervised elections within six months, and promised a share of revenue from the Kirkuk oil fields.

Armed with only light weapons, the Kurdish guerrillas are in no position to confront the 100,000 Iraqi troops in the region, and depend on allied air cover above the 36th parallel. With Mr Saddam still in power and the prospects for wider opposition co-operation at best uncertain, they face an uncomfortable stalemate.

"Western policy towards Iraq is not comprehensive, it reacts to events," said Kurdish spokesman Mr Hoshiyar Zebari last week. Initial pleasure among the exiled opposition groups at renewed western military action was already giving way yesterday to frustration that the Baghdad regime had barely been scratched.

NEWS: INTERNATIONAL

Mahathir set for clash with sultans

By Kieran Cooke in Kuala Lumpur

MALAYSIA seems set for a constitutional crisis resulting from an increasingly bitter confrontation between the government of Dr Mahathir Mohamad, the prime minister, and the country's nine sultans (hereditary rulers).

Dr Mahathir yesterday brought constitutional amendments into parliament which would abolish rights guaranteeing the sultans' immunity from prosecution in courts. The amendments would prevent them pardoning members of their own families and would relax rules on reporting of any royal misdeeds.

The sultans issued a statement shortly before parliamentary proceedings began rejecting Dr Mahathir's amendments, saying the future of the monarchy in Malaysia was under threat.

Legal experts say the Malaysian constitution stipulates a majority of the sultans, each of whom takes a turn as king, must give their consent to any constitutional changes affecting the monarchy.

Dr Mahathir insists he has the right to push the amend-

ments through parliament. He rejects criticism that he wants to abolish the monarchy but says the sultans must be made accountable for their actions.

The present stand-off originated in an incident late last year when one of the sultans is alleged to have beaten up a sports official. The local media, which had once avoided all adverse comment on the sultans, then began fulsome reporting of other alleged royal misdeeds.

Dr Mahathir insists most of the population firmly supports the government's moves against the royalty, although the sultans are still regarded by some sections of the community as an important symbol of the country's Malay and Islamic identity.

The prime minister's critics say he is seeking to increase his executive powers. Parliament is today expected to approve the government's amendments.

It is then likely the sultans will challenge the action in the courts.

That could lead to a long legal battle and possible unrest in the Malay community as government and royalty vie for popular support.

New foreign minister named in Rao reshuffle



Rao: move to boost influence

By Stefan Wagstyl in New Delhi

INDIA'S Prime Minister P V Narasimha Rao yesterday appointed a new minister to take charge of foreign affairs. The appointment was part of Mr Rao's wide-ranging ministerial reshuffle designed to bolster his authority in the wake of the Ayodhya crisis.

Mr Dinesh Singh will join the cabinet as external affairs minister, taking a portfolio previously held by Mr Rao himself. He is one of four new ministers; the others include Mr Pranab Mukherjee, new commerce minister, who will strengthen the team responsible for the government's economic reform programme.

The reshuffle was seen in Delhi last night as a successful bid by Mr Rao to boost his influence in the cabinet. But the new men were not expected to bring any immediate significant change in the government's popularity as a whole, nor in its ability to deal effectively with the crisis caused by the destruction of the Ayodhya mosque and the ensuing violence.

Mr Dinesh, 77, is a veteran of the ruling Congress (I) party who first served as a minister in 1962. His appointment will bring into the cabinet a representative from Uttar Pradesh, India's most populous state, where the Congress party is in need of reinforcement, having lost ground to the Hindu Bharatiya Janata party, whose supporters stormed the Ayodhya mosque.

Mr Mukherjee, 57, is moving to the Commerce Ministry from being deputy chairman of the government's Planning Commission. He replaces Mr P. Chidambaram, who resigned over the Bombay security market scandal. Mr Mukherjee, a former journalist, has served before in the Cabinet, including being finance minister in the early 1980s. The two other new Cabinet members are Mr A K Antony, minister for civil supplies, and Mr N K Salve, energy minister.

● In Bombay, businessmen struggled to bring offices and factories back to normal working after the violence that left over 600 dead and paralysed the city for nearly two weeks, writes R C Murthy.

In the port, dockers worked to make room for waiting ships. The Indian Merchants' Chamber, a leading business body, says the city has lost Rs15bn (£339m) in industrial output.

The worst-hit industry is leather, because many workshops are operated by Moslems, the chief victims of the attacks of Hindu-led mobs.

Production is concentrated in Dharavi, India's largest slum, where scores of businesses were burned and workers have fled. Mr H R Mallick, vice-chairman of the Leather Export Promotion Council, said it would take months for work to return to normal.

The city's jewellery and gemstone polishing industries are also badly hit because workers were unable to reach factories. An international exhibition, due to be held this week by the Gem and Jewellery Export Promotion Council, was postponed.

Mr K R Subramaniam, a former president of the Bombay Chamber of Commerce, expressed confidence that investment decisions would not be affected in the long run. Britain is pressing ahead with plans for Prime Minister John Major to visit Bombay while on a trip to India next week.



Mukherjee: previous posts

Water row threatens to surface at Turkish-Syrian meeting

By John Murray Brown in Ankara

WATER, which has so often jeopardised Turkey's relations with its Arab neighbours, again threatens to overshadow the talks in Damascus today between Turkish premier Suleyman Demirel and Syrian President Hafez al-Assad. It will be the first trip

to Damascus for a Turkish leader since 1987, when Mr Turgut Ozal initiated a joint security pact and guaranteed Syria a flow of 500 cu metres a second where the Euphrates crosses the shared border.

Some success on the security front, especially where Turks see Syria's new willingness to curb rebels

of the Kurdish Workers' Party (PKK), has helped pave the way for today's meeting. In April, Ankara revived the security protocol. The two sides also agreed to restart trilateral water talks suspended because of the war with Iraq. But relations continue to be marked by mutual suspicion.

The Syrians will want to use today's talks to press the water issue, vital for 60 per cent of the country's power generation. Turkey has announced plans to start irrigating along the Harran plain from May, diverting more water from the vast Ataturk reservoir.

The Syrians argue that under the

existing protocol there is an implicit undertaking for the Turks to negotiate a permanent water settlement once the reservoir is filled.

Ankara continues to resist the linkage between Syria's backing for the PKK and Syria's security concerns over Turkish control of the Euphrates River.

HK legislators voice fears on China talks

By Robert Mauthner, Diplomatic Editor

A GROUP of conservative Hong Kong legislators will today tell British government leaders of their deep concern at the way Sino-British relations have been deteriorating as the result of proposals for greater democracy in the colony.

The legislators, members of the 17-strong Co-operative Resources Centre, are expected to tell Mr John Major, UK prime minister, and Mr Douglas Hurd, foreign secretary, that they would like to see a return to the policy of "convergence" in relations between Britain and China.

Mrs Selina Chow and Mr Howard Young said yesterday their main aim was to see a resumption of the dialogue between Britain and China, which would ensure a smooth transition to the hand-over of sovereignty in 1997.

They were not asking for withdrawal by Mr Chris Patten, Hong Kong governor, of

his electoral reform package, the main cause of the trouble, but they would like him to amend it.

"If the British government took the initiative to amend the proposals, that might be the key to the reopening of the dialogue with China," Mr Young said.

The Hong Kong people, caught in the middle of the Anglo-Chinese quarrel, did not relish the prospect of "four-and-a-half years of needless arguments" at their expense.

"At the end of the day, it is the Hong Kong people who have to live with the consequences," Mrs Chow said.

The legislators said that, while they thought Mr Patten had acted with the best intentions, they believed "he might not be getting the best advice". The western form of adversarial politics was not necessarily the best way to handle the Chinese. "To get more, you have to use persuasion," Mrs Chow said. Flexibility wins friends, Page 16

Beijing urges banks to tighten up on lending

CHINESE leaders, worried that the economy is overheating, have told banks to tighten control on lending to industry, Reuters reports from Beijing.

Premier Li Peng and Vice-Premier Zhu Rongji were quoted yesterday as telling a banking conference that state-run banks this year must help cut money supply and credit, the prime source of inflationary pressure.

Banks should "control not only the size of loans but also issuance of currency," the official Xinhua news agency quoted Zhu as saying. The

comments highlight an urgent need for financial reform in China. The banking system was designed to serve the needs of Stalinist-style central planning and lacks the tools to fine-tune an emerging market economy.

Last year, banks ignored government-imposed loan ceilings and poured credit into state-run industry, fuelling an investment boom underpinning 12 per cent growth. Industrial output was up 30 per cent. Since two-thirds of state industry is losing money, many loans will never be repaid.

Manila starts talks on growth plan with IMF

By Jose Galang in Manila

THE PHILIPPINES starts negotiations with the International Monetary Fund tomorrow on a new programme aimed at pushing the economy towards a high-growth plane.

Philippine negotiators, led by Mr Ramon del Rosario, finance secretary, and Mr Jose Luis, governor of the Central Bank of the Philippines, will be seeking credits of more than \$800m (£526.3m) under the IMF's extended fund facility to support the country's "growth-oriented" economic programme designed to cover the next three years.

The programme is part of the government's plan for a growth of 4.5 per cent in the economy this year, rising to double digits by 1994.

Because of a debilitating electric-power shortage, the economy grew by just 1.5 per cent in 1991 despite heightened optimism brought about by the improved political environment.

The current economic stabilisation programme supported by the IMF involves stringent

ceilings on fiscal and monetary expansion. It is due to end in March.

The negotiations are expected to be difficult. Early assessments of the Manila programme indicate strong pressure from the IMF to scale down the growth targets.

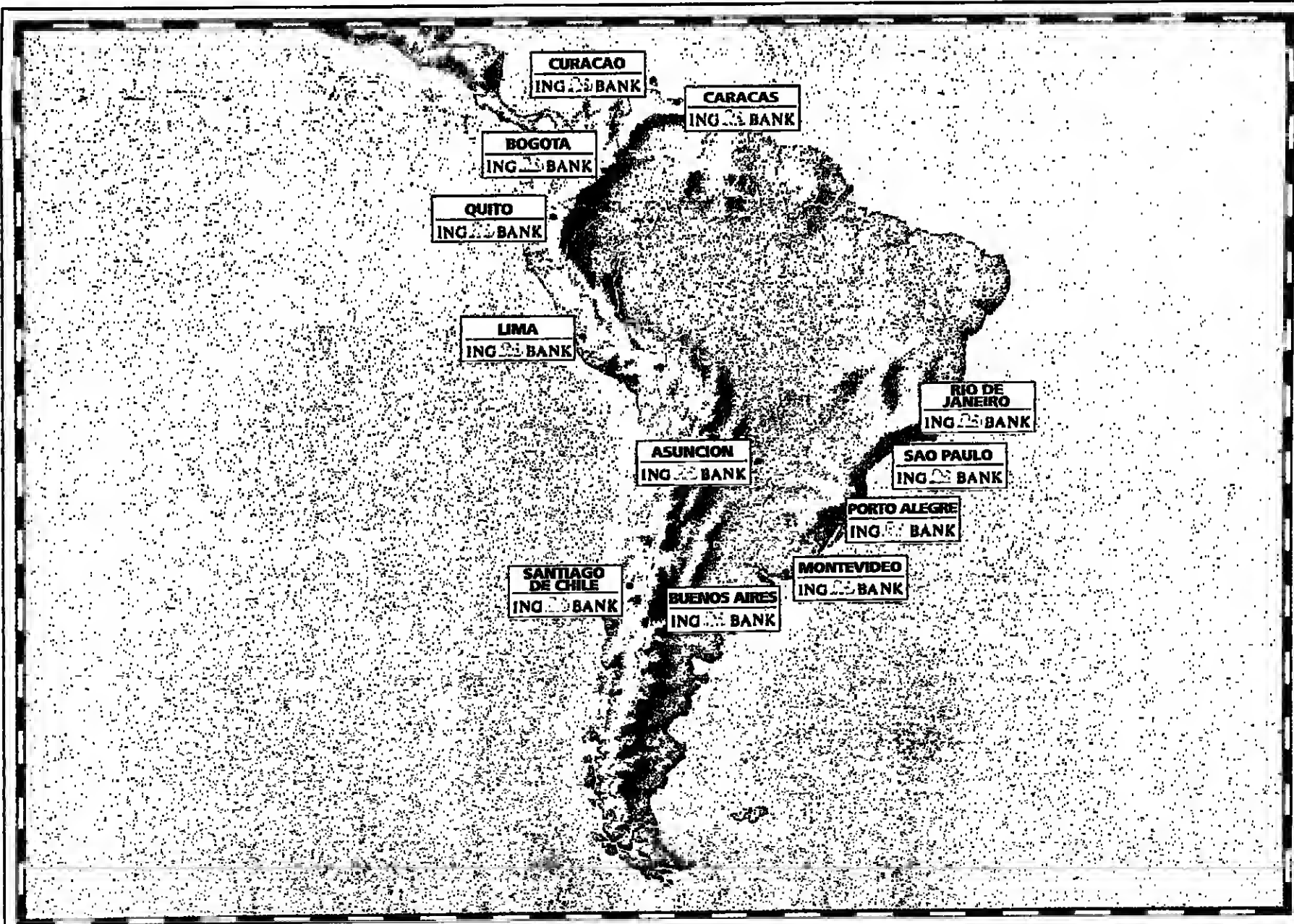
IMF analysts had noted that previous high-growth periods in the Philippines were followed by balance-of-payments crises.

Owing to the heavy spending on infrastructure allocated during the early part of the growth programme, the strategy could fuel inflation later and derail the ambitious scheme, according to some analysts.

However, the Philippine negotiators are expected to press for the programme, because of the need for "a more dynamic investment and overall output performance".

The officials feel that after meeting the strict criteria attached to the current programme, the Philippines should be "in a stronger bargaining position" for the week-long negotiations.

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NEWS: UK

Labour split on Maastricht treaty tactics

By Philip Stephens and David Owen

THE government's hopes of pushing through legislation to ratify the Maastricht treaty were given a significant boost yesterday as splits emerged in Britain's opposition Labour party over the bill endorsing closer EC integration.

As the legislation returned to the House of Commons yesterday for another three-day session of line-by-line debate in its Committee stage, prominent pro-Europeans on the Labour benches challenged their party's official policy.

The government can ensure the passage of the bill only if it wins a series of "closure motions" to limit debate on the hundreds of amending amendments proposed by Euro-sceptics in the Conservative party.

Labour policy has been to join with the rebels to oppose such motions.

But a number of pro-European Labour MPs are now warning that the party's tactics risk undermining its European credentials.

Skilful handling of the bill by Tory party managers and the tacit support of smaller parties has so far allowed the government to win closure motions on two of the 25 groups of amendments which must be debated in the Committee Stage.

At the same time, the successful outcome of the Edinburgh summit has intensified the unease of Labour support-

ers of the treaty about being seen as allies of the Tory Eurosceptics.

More than 85 Labour MPs last month signed a parliamentary motion calling for the "rapid completion" of the Maastricht treaty's ratification. Many of them now want the party leadership to abstain on closure motions as long as the government continues to give reasonable time to debate the bill.

The divisions are expected to emerge publicly tomorrow at a meeting of the parliamentary Labour party. The pro-European MPs believe that they can rely on the support of less committed colleagues who have already become exasperated at being forced to remain constantly in the Commons simply to be on hand to vote against closure motions.

Mr John Smith, the Labour leader, is expected to oppose any formal shift in the party's position. But leading Labour MP predicted last night that support for the official line was likely to "melt away."

Debate yesterday moved to industrial policy, with Labour choosing to highlight Britain's poor record on unemployment compared with its European partners.

Challenging the government to explain how it defined industrial policy, Labour spokesman Mr Derek Fatchett argued the free market had failed in the 1980s. "The role of government intervention is back on the agenda," he said.

CBI survey dampens hopes of retail recovery

By Emma Tucker, Economics Staff

BRISK RETAIL trade in the last few days before Christmas failed to lift December sales above levels of a year ago, according to the Confederation of British Industry, the UK employers' organisation.

The CBI distributive trades survey published today contradicts anecdotal evidence of a boost to shop sales last month, showing instead that, overall, many retailers had a disappointing Christmas.

Mr Nigel Whittaker, chair-

man of the CBI's distributive trades panel said the results were an improvement on recent months, and that sales were expected to be up on a year ago this month.

Sales are now reported to have fallen on a year-on-year basis for three successive months. In December, the balance of retailers reporting an increase in sales minus those reporting a decrease was -4 compared with +5 in December 1991. In November the balance was -9.

The CBI noted a marked discrepancy between the perfor-

mance of big retailers, who indicated sales were up, and small retailers - employing less than 200 people - who did badly. It also believes consumers have become more discerning and may have been waiting for the January sales before making significant purchases.

Specialist food shops, off-licences, bookshops, stationers and DIY retailers were among those who suffered a particularly dismal month. Off-licences said sales had declined significantly year-on-year for five successive months.

Business was better for con-

fectioners, tobacconists, newsagents, chemists and clothing retailers whose sales were higher than in December 1991.

The survey, conducted between December 16 and January 6 is the first indication that Christmas sales did not live up to expectations.

Mr Whittaker said: "Consumers are cautious and are looking out for bargains. The cuts in interest rates in the Autumn have not had their full impact on spending."

Official figures tomorrow are expected by economists to show a small increase on the

month, but a more substantial rise - around 2 per cent - on the year.

The CBI said motor trades had the best month in December, with sales increasing against expectations. Although sales for the time of year continued to be poor, they improved on November with sales of vehicles increasing.

Wholesalers reported a year-on-year decline in sales for the third successive month. The survey said they were able to reduce stocks in December following cuts in orders placed with suppliers.

Northern businesses see signs of upturn

By Our Regional Staff

A SLOW recovery has started in the northern counties of Yorkshire and Humberside, according to a survey of business performance carried out by the region's chambers of commerce.

Similar surveys in north-east England and Cumbria, and in the east Midlands, also reveal a modest increase in sales and orders during the last quarter of 1992, repeating the experience of companies reported by regional chambers earlier this month, in north-west England, the west Midlands and north Wales.

Yorkshire and Humberside, with the largest regional canvass of companies - 1,464 of them - said the return of orders to the levels recorded just after last April's general election could mean "some economic recovery in 1993, barring any minor setbacks."

But in the north-east, the Northern Development Company and the Teesside and Tyne and Wear chambers noted that business performance is still some way below the levels achieved during the first half of 1992.

The surveys also reveal improved export prospects, most notably in the north-east and Cumbria where, of the 769 companies responding, 47.8 per cent reported higher sales.

Yorkshire and Humberside chambers attributed the stronger export trend to sterling devaluation but warned that, the slowdown in Germany, the region's largest export market, meant this may not last.

Such caution mirrors that of the Birmingham business group of the Confederation of British Industry which recently reported that a higher flow of orders was coming from the US and the Far East, rather than continental Europe.



Towns and villages across Scotland were yesterday struggling to cope with serious flooding following a rapid thaw after weeks of freezing weather. In Perth (above) many residents were evacuated and boats were used to rescue motorists trapped in their cars

Charities Aid Foundation welcomes 'staggering sum' Sainsbury gives trust £200m

By Guy de Jonquieres, Consumer Industries Editor

MR DAVID Sainsbury, chairman of the J. Sainsbury supermarket chain and one of Britain's richest men, has given shares in the company worth £200m to the Gatsby Charitable Foundation, a grant-making trust which he has funded since 1967.

The donation, from Mr Sainsbury's personal holding, is believed to be by far the largest UK charitable contribution by a private individual in recent times. It was described as "a staggering sum" by the Charities Aid Foundation, which monitors charity finances.

The Gatsby Foundation disbursed about £15m last year, making it Britain's third larg-

est grant-giving trust measured by spending. Yesterday's donation of 35.6m J. Sainsbury ordinary shares - roughly 2 per cent of the company's equity - will increase its capital to about £500m.

Named after F. Scott Fitzgerald's novel *The Great Gatsby* - the tragic tale of an ostentatious American parvenu whose fortune stemmed from shadowy origins - the trust finances a wide range of activities close to the 52-year-old Mr Sainsbury's personal interests.

They include management and technical education, African development programmes, support for disadvantaged children, economic and business research, health care and plant science. The trust is a leading supporter of the Centre for Business Strategy at the Lon-

don Business School, where Mr Sainsbury is chairman of the board of governors.

The trust is the largest of several charitable organisations founded by members of the Sainsbury family, which have total assets of about £1bn. Three of Mr Sainsbury's cousins helped finance the construction of the National Gallery Extension in the 1980s.

The Gatsby Foundation has pledged to retain its J. Sainsbury shares as an investment. They currently pay an annual dividend worth about £4m.

Mr Sainsbury, who became chairman of the company in November, will remain the wealthiest member of the family with a personal holding of 312.5m shares - 17 per cent of the company's equity - after the donation.

Companies obsessed by cost-cutting says survey

By Andrew Taylor,

BRITISH manufacturers are obsessed with cost-cutting and are failing to invest sufficiently in research and development according to a survey published today.

The survey of more than 200 managing directors and technical directors warns that Britain is in danger of squandering improvements in productivity and quality through not paying enough attention to product development.

Computervision, the manufacturing design company which conducted the survey of companies with more than 300 employees, said that most manufacturers identified research and development as a cost rather than an investment.

A third of those questioned said cost-cutting was the most important issue facing their business.

Mr Gareth Evans, Computervision's managing director of manufacturing director, said lack of investment was the biggest obstacle facing manufacturers.

"Firms see themselves as vulnerable on research and development and the use of advanced manufacturing technology relative to Germany's performance," he said.

Almost 75 per cent of manufacturers declared themselves "fully prepared" for the single European market, with 88 per cent of companies already selling or planning to sell goods in other EC markets.

Government names first rail regulator

By Richard Tomkins, Transport Correspondent

THE government yesterday chose a lawyer and a former merchant banker to take two positions at the centre of its plans for implementing the privatisation of British Rail, the state-owned railway.

They are Mr John Swift QC, an expert in competition law, who is to become the Rail Regulator, and Mr Roger Salmon, a former director at N.M. Rothschild merchant bank who is to become the Director of Passenger Rail Franchising.

Mr Swift will play a key role as Rail Regulator, ensuring that train operators - passenger and freight - get fair access to the railway tracks at an acceptable price. He will also be responsible for protect-

ing rail passenger's interests.

Mr Salmon will be responsible for franchising private sector companies to take over the operation of BR's passenger services and making sure they fulfil their obligations once the franchises are awarded.

The appointments follow the government's decision last month to install Mr Bob Horton, former chairman of British Petroleum, as vice chairman of BR with special responsibility for setting up Railtrack, the state-owned authority which will own BR's tracks.

Completion of these key appointments further emphasises the government's determination to press ahead with rail privatisation in spite of sharp criticisms of its plans from opposition parties and some Conservatives.

Code planned on EC jobs and pay law

By John Willman, Public Policy Editor

THE government is planning to publish a clear and definitive explanation of how EC legislation protecting the jobs and pay of workers in mergers affects the contracting-out of public services, Mr William Waldegrave said yesterday.

Mr Waldegrave, the public services minister, was addressing a conference organised by the Cabinet Office to involve business in the government's market-testing programme.

Doubts over whether the EC legislation applies have cast a

shadow over the programme, which will put £1.5bn of civil service work out to tender by the end of September.

A series of judgments in the European Court of Justice has extended the scope of the EC legislation to contracting out.

Experts in employment law have warned that companies which win contracts to provide public services are likely to be covered by the Transfer of Undertakings (Protection of Employment) Regulations 1981 - known as TUPE. This would make it harder for them to sack workers.

Mr Waldegrave told the con-

ference that the Tupe regulations had not hindered market-testing in the past, nor would they in the future.

He warned that whether the regulations applied to any contract depended on the particular circumstances of the case. Companies bidding for work should take legal advice on whether they applied in each case.

Yesterday's conference - attended by more than 500 business executives - was picketed by civil service trade unions. Mr John Ellis, secretary of the Council of Civil Service Unions, described the pro-

gramme as the "biggest car boot sale ever held".

The unions warned that they would oppose the market-testing programme which exposes the jobs of over 44,000 civil servants to competitive tendering. The CCUS said it would use the Tupe regulations to ensure that contractors maintain civil service pay and conditions.

Mr Waldegrave, however, challenged the assumption that all contracting-out involved cutting the pay and conditions of the workforce. "Many existing transfers where Tupe does apply have still proved worthwhile for contractors," he said.

International commission seeks proposals on Ulster

By Jimmy Burns

AN international commission of inquiry seeking ways forward on Northern Ireland begins three weeks of public hearings today in Belfast.

The commission is chaired by Professor Torkel Opsahl, a leading international human rights lawyer and United Nations adviser.

Other members include Mr Eamon Gallagher, the former EC director general of fisheries, and Lady Faulkner of Downpatrick, a former BBC governor for Northern Ireland,

whose husband Brian was the last prime-minister of the Stormont assembly.

The idea for the commission came from Initiative '92, an independent non-political group formed two years ago by Mr Simon Lee, a law professor at Queen's University, Belfast, and Mr Robin Wilson, the editor of *Fortnight*, a local current affairs magazine.

The commission has funding from several charity groups led by the Joseph Rowntree Trust, Barrow Cadbury, the Northern Ireland Voluntary Trust, and the Nuffield Foundation.

Industrial alliance improves political links

Peter Marsh examines the work of a foundation aimed at promoting growth

AN ALLIANCE of 21 big British companies including Imperial Chemical Industries, Marks and Spencer and Rolls-Royce has emerged as a force trying to ensure that UK policies encourage growth.

Senior managers from the group have quarterly meetings at 10 Downing Street with Mr Gus O'Donnell, Mr John Major's press secretary, at which they pass on views about actions they would like from the government.

The group, the British Management Data Foundation, is the brainchild of Mr Anthony Cowgill, a 77-year-old former army officer who founded it in 1980.

Members include Shell UK, Wellcome, Allied-Lyons, ICL, British Gas, National Power, TI Group and Lucas. British Petroleum, Unilever and British Aerospace, while not part of the foundation, sometimes send people to meetings.

News of its largely unpublished activities comes as industry steps up its efforts to win a bigger voice in government

after several years of complaining that policies do not value manufacturing highly enough.

In a meeting with Mr O'Donnell in November, the foundation pressed for long-term efforts to make government officials more sympathetic to manufacturing, as well as for cuts in interest rates. Mr O'Donnell said notes from the meetings were passed to Mr Major.

The group last year met Mr Michael Heseltine, trade and industry secretary, to discuss how to promote industrial innovation. It has recently started a discussion with Mr Alan Budd, the Treasury's chief economic adviser, in an effort to build on the Treasury's initiative to foster better links with industry.

Members also have called for government action on education and training to boost the numbers of young people who know about technology.

In the past three months, the group and other organisations putting similar views have seen their efforts at least partly rewarded.

Mr Norman Lamont, the chancellor, unveiled a modest package of measures to help industry in the November Autumn Statement, while Mr John Major has stressed that the March Budget should follow similar principles. The prime minister has also talked about making the civil service more sympathetic to industry.

"We are beginning to see a more receptive approach by the government," says Mr Cowgill. "And on the part of industry there has also been a change, with less whingeing and more selectivity about the things it wants from the politicians."

The former brigadier, who set up the foundation in 1980 after taking over an existing engineering study group, said the foundation's main role is to set up meetings involving its member companies and the government. There were about 40 such gatherings last year, most of them receiving little or no publicity.

Taking part in these talks normally are senior managers rather than company chairmen or main-board directors. As a result, industry representatives do not necessarily have to repeat company views, but say what they really think about specific issues.

In keeping with this goal of encouraging dialogue rather than pushing fixed ideas, Mr Cowgill does not like to call himself a lobbyist. He prefers the term "illuminator of facts".

Mr Cowgill describes his organisation - which provided him with a £35,000 salary last year - as a "Mickey Mouse outfit." He runs the foundation from a converted garage in his home in Gloucestershire, western England.

Mr Richard Freeman, chief economist at ICI, says: "It has provided people in industry access to people at high levels in government they would not otherwise meet."

Membership of the group costs £5,000 a year and is by invitation of Mr Cowgill. It features a range of companies representing many different sectors.

According to Mr Malcolm Edwards, former marketing

director of British Coal and now an independent energy adviser, the most recent Downing Street discussions had a big effect on influencing Mr Major to come out with statements asking banks to reduce the cost of business loans by passing on to customers a higher proportion of recent base rate cuts.

As for his own views about industry, Mr Cowgill thinks Britain has become too involved with the rest of Europe and that politicians should spend more time making sure UK businesses can compete on a global scale.

He says Britain should refuse to sign the Maastricht treaty and was delighted when Britain left the European exchange rate mechanism, which he says was keeping the exchange rate and also interest rates at an artificially high level.

"Sometimes I walk a tight-rope, especially when I am in discussion with the government," he says. "But normally I try to keep in the background and let others do the talking."

Britain in brief



Patten plans shake-up in education

radical reforms to primary education in England, including the streaming of pupils by ability and an overhaul of primary teacher training, have been announced by Mr John Patten, education secretary.

They mark a further stage in the government's assault on "progressive" teaching. Mr Patten is writing to all 19,000 primary schools in England urging them to "achieve a better match of work to children's needs." His "five-point plan" includes greater use of "whole class" and specific-subject teaching, the introduction of streaming by subject where possible, and the grouping of children by ability where not. This is the first time the government has sought to make streaming at primary level a matter of national policy.

Support for Indian trip

Mr John Major won support from industrialists for taking senior businessmen on his India trip next week - a move described by Downing Street as part of efforts to create UK jobs and promote co-operation. One delegation member, Mr Howard Davies, director general of the Confederation of British Industry, hailed the trip as symbolic. "To find a bit of prime ministerial time spent on promoting exports in a very large but difficult market is something which cheers people up," he said.

Guinness files "went missing"

Documents relating to the £5.2m allegedly stolen from Guinness by Mr Thomas Ward, the US lawyer, went missing after his attorney went through files on Mr Ward's transactions, an Old Bailey jury has been told.

The files were held in the offices of Mr Michael Dee, a Jersey-based company administrator who looked after Marketing and Acquisition Consultants Ltd, MAC, a company owned by Mr Ward, the court was told. Giving evidence, Mr Dee said that in December 1986, Mr William Dwyer, Mr Ward's attorney, had been allowed to review the files on MAC. He was left alone in Mr Dee's offices for a hour or two to do this.

When Mr Dee next looked at the files there were "one or two" documents he could no longer find, he said.

These included a file note recording Mr Ward's instructions to transfer £5m of the £5.2m to the Swiss bank account of Mr Ernest Saunders, the former Guinness chief executive, he said.

Mr Ward is charged with the theft of the £5.2m from Guinness, and single charges of false accounting and executing a valuable security in connection with the alleged theft. He denies all the charges. The trial continues today.

Nationwide closes agencies

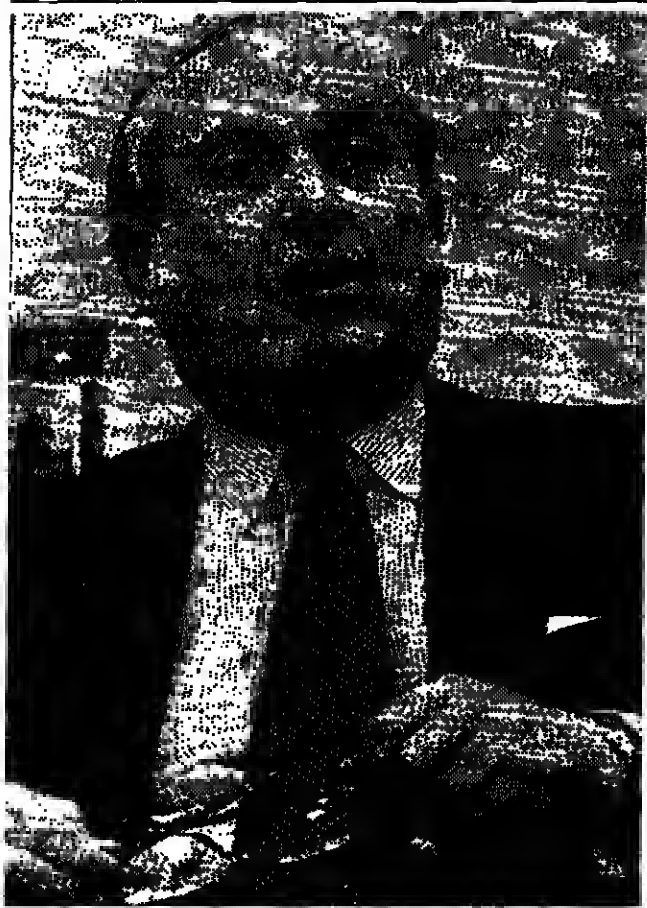
Nationwide, the UK's second largest building society, says it is to close 58 of its 361 estate agency branches with the loss of 300 jobs, after a year-long review of its estate agency business. The society, which has a high ratio of costs to income compared to other agencies, says the move indicated its continued confidence in the rest of its estate agency business, which last year lost £12m.

Lawyers plan to save £43m

The Law Society and the Bar have put together a package of cost-cutting measures designed to replace the Government's proposed cuts in legal aid eligibility. The proposals are calculated to save £43m - the savings in the legal aid budget the Lord Chancellor has said he must find to meet Treasury targets.

Hoteliers are more optimistic

The proportion of UK hoteliers who think recovery has begun increased to 27.1 per cent in the last quarter of 1992, compared with 13 per cent in the previous quarter, according to Horwath leisure consultants.



Anthony Cowgill: seeking a political hearing for industry

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Source: Advertising Age 12/21/92

No guts. No story.

In spite of improvements, banks still fail small business customers. Charles Batchelor looks at the commercial relationship in which normal rules do not seem to apply

Calling lenders to account

Hire a car and the rental companies fall over themselves to win your business and make you feel a valued customer. Hire money from a bank and somehow the normal commercial relationship does not apply. The customer pays - though he will not be involved in advance - but is often left with the feeling the bank is providing a favour and not a service.

Clearly banks are different from car hire companies. The commercial relationship endures far longer; the product on offer is converted into other, sometimes negative, assets by the customer; and, on top of their duty to shareholders, banks have a responsibility to their depositors.

The uneasy relationship between the banks and a sizeable minority of their small business customers has provided fuel for an acrimonious debate which has rumbled on for the past five years. It was given fresh impetus by the publication last week of a new study* of the banks - the fifth in a series - by the Forum of Private Business.

The forum, normally the most pugnacious of the small business lobby groups, took pains to stress the improvements which have occurred and to emphasise the need for a constructive debate.

The study, carried out by a team from Nottingham University, found that there was no foundation to the oft-repeated claim that the banks had not passed on base rate cuts to customers. There was also a greater differentiation in the quality of service offered which the forum took as proof the banks did not operate a cartel. Barclays ranked most highly for the quality of service to small businesses while Lloyds lagged a poor fourth.

But beneath this rather optimistic gloss the survey comes to some worrying conclusions about the banks' performance. There are still "substantial weaknesses" in the banking relationship and indications that, in the event of economic recovery, banks would not be well

placed to respond to an increase in demand for funds from businesses. Bank charges, interest rates and the banks' demand for collateral remain important constraints on small firms, said Martin Binks, head of the research team. The publication of business charters and tariff cards by the larger banks has helped businesses calculate their likely charges. But there remains "genuine pessimism" about the overall impact of the charters on bank attitudes, the survey reported.

For reasons which were not clear to the researchers, the Scottish Banks - Royal Bank of Scotland, Bank of Scotland and Clydesdale - outscore their English counterparts in the quality of service provided.

Possible reasons include the fact that the Scottish banks are smaller, easier to manage and can afford to be more selective in their choice of customer.

Most worrying, given the efforts the banks say they have made to improve matters, was the view among small businesses that the quality of the banks' service had

declined since 1990. The reason for this, according to Jane Bradshaw, head of small business services at National Westminster Bank, was that the recession had obscured the progress which had been made.

NatWest has increased training programmes to familiarise managers with the problems facing small business, freed staff from administrative duties to concentrate on customer relations and improved the service provided in specialist areas such as franchising, Bradshaw points out.

However much the banks improve their services they will always suffer from the fact that they have to refuse finance to some of the people who ask for it, she says. And, she notes, any survey of banking issues will inevitably highlight bank-related problems.

There may be some truth in this last assertion but the banks' usual defence - that the banking horror stories which have received publicity are anecdotes without statistical significance - is no longer tenable.

Business owners who would once have accepted the bank manager's advice without question have become far more critical. They are now aware of the need to manage the banking relationship. Points they should watch include:

- If you are unhappy with your bank's charges check with the branch how they are calculated. Errors are common and it is not unknown for a 0 to be added to the interest rate or for penalty rates to be levied on the entire overdraft and not just the excess.

- If the manager cannot say how he has arrived at a particular level of charges press for an explanation. This should be less common

now the banks have published customer charters and more details of their rates but it does sometimes occur.

- Negotiate on fees but do not forget that the bank has to make a profit too. It makes sense to compare what your bank offers with the competition and use this in negotiations.

- Ultimately it may be worth changing banks but do not underestimate the inconvenience involved. Make sure the bank you would like to move to will be prepared to take on your account. Some managers are reluctant to take on refugees from their competitors on the grounds that they may be troublemakers.

The banking relationship

★ Below average
★★ Average
★★★ Above average

Bank manager helpful
Bank manager receptive to contact
Bank manager interested in my business
Confident in advice from bank manager
Confident that manager understands small business
Firmly advised when dealing with bank
Bank manager comes forward with positive suggestions to help my business
Rely on manager to find ways of meeting changing financial needs
Manager willing to offer non-standard products

	Barclays	Lloyds	Midland	National Westminster	English banks	Scottish banks
Bank manager helpful	★★★	★	★★	★★★	★	★★★
Bank manager receptive to contact	★★★	★	★	★★★	★	★★★
Bank manager interested in my business	★★★	★	★	★★★	★	★★★
Confident in advice from bank manager	★★★	★	★	★★★	★	★★★
Confident that manager understands small business	★★★	★	★	★★★	★	★★★
Firmly advised when dealing with bank	★★★	★	★	★★★	★	★★★
Bank manager comes forward with positive suggestions to help my business	★★★	★	★	★★★	★	★★★
Rely on manager to find ways of meeting changing financial needs	★★★	★	★	★★★	★	★★★
Manager willing to offer non-standard products	★★★	★	★	★★★	★	★★★

The forum survey covered more than 6,000 businesses and provides a valid cross-section of the small business community.

At the same time banks like NatWest claim that their own customer surveys indicate very high levels of satisfaction. A survey on behalf of all the main high street banks among start-up companies showed 92 per cent rated the banks' service as quite or very good.

One of the most common complaints of recent months - that the banks have reduced loan facilities across the board - is not confirmed by NatWest's figures, says Bradshaw. In the 15 months to September 1992, NatWest increased the overdraft facilities available to 39 per cent of its customers and reduced them for only 22 per cent.

This view appears to be supported by the latest NatWest/Small Business Research Trust survey which found that access to finance ranked only eighth among the problems facing small firms, well behind issues such as lack of turnover - the frontrunner cited by 44 per cent of small firms questioned - and cashflow difficulties (12 per cent). Further light on this aspect of the banks' behaviour will be shed by a Treasury review of the small business loan market to be published in the next few weeks.

This finding is perhaps not surprising in a recession but many in the business community are concerned that the banks will not be able to meet demand for finance when the upturn comes. "Managers are becoming more risk-averse," says Alastair Winter of the Bank Relationship Consultancy*, one of a number of specialist consultancies which have sprung up to help businesses deal with their bank.

The banks are poor at assessing risk and managers often seem unable to distinguish between a sound and an unsound business proposition, says Philip Doggett of Business Banking Review.

The banks, for their part, are quick to point out that a banking relationship is a two-way affair. The forum study found that 70 per cent of small businesses were aware of the need to provide the bank manager with timely and regular management information. How often this awareness is put into practice is another matter but it does indicate an increased sophistication on the part of businesses.

However hard the banks work on improving their services, they are operating in a far more critical market place. They are large organisations and it will take a long time to change traditional cultures. They can expect the transition to be subjected to a painful, public scrutiny.

*Small Businesses and their Banks. Report 1992, summary £3.50. Tel: 0585 534467.
*Tel 071 883 5454
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Taking the banks to task

- Keep your bank manager informed about the progress of your business on a regular and timely basis. This is more than a chore. It is a useful discipline which will keep you more informed about your business. Make sure the quality of your financial information is high and not just a few jottings on the back of an envelope.

- If you have bad news to impart make sure you have a plan prepared for putting the problems right.

- Keep a close eye on the terms and renewal dates of bank facilities so you can plan your negotiating position ahead of the next renewal meeting.

- Make sure you have a facility letter from your bank to cover any financing you have arranged. Check its contents to see that it matches what you have agreed verbally.
- If you are required to provide personal guarantees make sure the amount corresponds to the sum borrowed and that there is a time limit. Do not sign unlimited, open-ended guarantees. It will restrict your freedom of manoeuvre. Once a guarantee expires make sure the fact is recorded at Companies House or at the Land Registry or you may have problems raising loans in future.

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**In a
Nutshell**

Intellectual property rights explained

Intellectual property rights can be among the most valuable assets of a business but their importance is often overlooked because they are intangible. A guide to the legal issues has been prepared by solicitors Baileys Shaw & Gillett. Some rights, such as patents, must be formally registered but others, including copyright and trade or service marks, arise automatically. They are valuable because they can be used to establish a competitive advantage or because they can be sold or licensed to produce royalties.

Intellectual Property Rights and Your Business, 17 Queen Square, London WC1N 3RH. Tel: 071 537 5453. 16 pages. Free.

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From South London Business Initiative, 444 Brixton Road, London SW9 8EJ. Tel: 071 374 4000 ext. 364. 88 pages. £5.

Think big, buy small urges minister

A renewed attempt to open up government purchasing to small businesses has been launched by small firms minister Baroness Downton.

Government purchasing officers are being urged to make more use of small suppliers by means of a video, *Think Big... Buy Small*, and an accompanying booklet. Businesses wishing to learn more should contact Roger Filby, Small Firms Division, c/o Moorgate, Sheffield S1 4PQ. Tel: 0742 594715.

هكذا من الأعمال

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(In Administrative Receivership)

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For further information contact the Joint Administrative Receivers, Barry Jones or Barry Mitchell, KPMG Peat Marwick, Marlborough House, Fitzalan Court, Fitzalan Road, Cardiff, CF2 1TE. Tel: 0222 468000. Fax: 0222 468202 or 468203.

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For further details contact the Joint Administrative Receivers: Len Handscombe or John MacMillan, Grant Thornton, Ashdown House, 125 High Street, Crawley RH10 1DQ. Tel: 0293 561383 Fax: 0293 561392.

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For further details contact WJH Elles, Joint Administrative Receiver, Ernst & Young, Wessex House, 19 Threefield Lane, Southampton SO1 1TW. Telephone: 0703 230230 Facsimile: 0703 227409.

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For further information contact the Joint Administrative Receiver, Mick McLoughlin, KPMG Peat Marwick, St Nicholas House, Park Row, Nottingham, NG1 6FQ. Tel: 0602 483444. Fax: 0602 483401.

KPMG Corporate Recovery

FOR SALE

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Contact: Sue M Watson, Administrative Receiver
Harris Watson, 12 St Paul's Square, Birmingham B3 1RB
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Tamcarla Limited T/A Nu-Life Window Company (in administrative receivership)

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- Established 20 years

- Own profile system

- Turnover last year £1.8 million

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- Mainly domestic sales

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BUSINESS AND THE LAW

Perrier workforce loses merger plea



Attempts by the Perrier workforce to challenge the European Commission's decision allowing the Nestlé/Perrier merger have suffered a setback following refusal by the president of the Court of First Instance, Mr Cruz Villaca, of their application for interim measures. This was the first Court ruling involving the 1989 EC merger regulation.

Following clearance of the merger by the Commission last summer the Perrier workforce brought an application for judicial review. Pending the hearing of their application they also requested suspension of the Commission's authorisation decision and asked the CFI to order the Commission to require Nestlé to reduce employment in the Perrier group nor to comply with the undertakings given to the Commission which included the sale of Perrier subsidiaries.

The CFI president dismissed the application for interim measures on the grounds that the applicants had not proved sufficient urgency to justify intervention by the Court.

The main reason for urgency relied on by the applicants was the threatened redundancy of 740 employees during 1993 and the likelihood of further redundancies following the sale of subsidiaries to a competitor, BSN, France's largest foods group. They claimed the absence of a right of reinstatement for unfair dismissal in French law meant that redundancy constituted serious and irreparable harm.

In reaching his decision the president took into account the need to balance the conflicting interests of the employees' representatives with those of Nestlé.

The president pointed out that, in fact, redundancies would arise only if the more favourable methods proposed by Nestlé for reducing employees failed.

Moreover, there should be no risk of further redundancies as a direct result of the Commission's authorisation decision itself or the conditions requiring the sale of subsidiaries.

First, the merger regulation expressly states it has no impact on the collective rights of employees. Second, the 1977 Acquired Rights Directive precludes redundancy on the transfer of a business, including a transfer resulting from a merger authorisation decision.

Judicial Review

However, the president rejected the Commission's claim that the main judicial review application was inadmissible.

The applicants' main grounds for asking the court to annul the Commission's decision include alleged infringements of the procedural rights of recognised employee representatives of the companies concerned by a merger and the failure of the Commission to respect fundamental social rights recognised by Community law, including the social charter.

They also challenged the decision on the grounds of failure to maintain effective competition in France, and the introduction of the concept of "duopoly" or "oligopolistic dominance" without legal basis into the merger regulation.

Although the CFI president did not comment on the main grounds for judicial review, his ruling contained observations on the policy objectives of the merger regulation indicating the likely position which the CFI could adopt in the context of the protection of employee interests in merger cases.

He accepts the Commission policy implemented during the first two years of EC merger control that competition considerations are predominant in the assessment process. But, he notes that in considering the effect of mergers on the structure of competition in the Community, the Commission must place its appraisal within the general framework of the achievement of the fundamental objectives referred to in Article 2 of the EEC Treaty, including that of strengthening the Community's economic and social cohesion.

According to the president, the Commission also acknowledges the correctness of this approach. More interestingly, the Commission is reported as saying that taking other effects of a merger into account would hinder achievement of one of the general Treaty objectives and notably the development of employment.

The Commission claims that neither the Perrier takeover nor the subsequent sales of subsidiaries could harm any of these objectives.

Case T-96/92 R, *Comité Central d'Entreprise de la Société Générale des Grandes Sources et al v Commission, Order of President of Court of First Instance, 15 December 1992.*

BRICK COURT CHAMBERS, BRUSSELS

The endowment of Brussels two years ago with power to vet large-scale Community mergers has been an unexpected success for European business. The Merger Task Force, the European Commission's mergers watchdog, has shown itself capable of meeting the tight procedural deadlines set by the merger regulation and a willingness to reach an accommodation with businesses where possible.

This flexibility is reflected in the statistics. Of the 136 notifications dealt with by the task force during its first two years, 103 were cleared within one month and only 10 went to a full-scale, four-month, phase two investigation. Of those, two were cleared, one withdrawn, and seven cleared after modification.

Only one merger - the bid by France's Aérospatiale and Italy's Alenia for Canadian aircraft manufacturer De Havilland - has been blocked following a phase two investigation, and that largely because of the fierce opposition to it put up by Sir Leon Brittan, then competition commissioner.

It took 17 years of negotiation and much political compromise to get the merger regulation adopted. Deciding which cases should be dealt with by Brussels and which should be left to the national competition authorities proved one of the bigger sticking points. Finally, it was agreed jurisdiction should be determined by reference to the turnover of the companies involved.

If the combined worldwide turnover of the companies was more than Ecu5bn and the aggregate EC turnover of each of at least two companies was Ecu250m or more, then the case would go to Brussels. Mergers below these thresholds would remain the exclusive jurisdiction of national authorities.

This represented a victory for Germany and Britain, the two EC countries with the strongest national competition bodies and the most reluctant to cede power in this area to Brussels. Other member states argued the thresholds should have been set lower, bringing more mergers under Brussels' control.

As a compromise it was agreed thresholds would be reviewed by the end of 1993 with the expectation that they would come down if Brussels proved itself capable of handling a predicted 50 to 60 mergers a year. This year promises a fierce debate on the issue between the member states and the Commission.

Has the regulation been a success? Mr Michael Reynolds, head of City solicitors Allen & Overy's Brussels office, says it is possible to criticise individual decisions and there has been some inconsistency, for example, in defining relevant product and geographic markets. There has also been some concern

Marriages made in Brussels

Robert Rice on why EC merger rules have found favour with industry



Commissioners past and present with Karel Van Miert (left) at its head the regime is likely to become more relaxed than in the days of Sir Leon Brittan

over lack of transparency. Why for example was the De Havilland merger blocked while Nestlé's bid for Perrier was cleared subject to certain undertakings? There is no doubt, however, that deadlines have been met and the regulation has been a procedural success, he says.

So will the thresholds come down in 1993? It seems industry would like them to. If a case is borderline it is now quite common for businesses to ask their lawyers to structure the deal so as to bring it above the thresholds, Mr Reynolds says.

What industry likes about the merger regulation is the certainty it affords - the opportunity to obtain clearance for a deal after the initial one month appraisal period, he says. This certainty is not afforded by national competition authorities.

Professor Barry Hawk, head of the Brussels office of US law firm Skadden Arps Slate Meagher & Flom says industry is also heartened by the task force's relaxed approach, reflected in the statistics.

If Sir Leon had remained in charge of competition, a toughening of the regime could have been

expected, particularly after the De Havilland case. But with a new competition commissioner, Mr Karel van Miert, in charge and a new director of the task force, Mr Phillip Lowe, taking over in April, neither of whom has any background in competition regulation, the regime is, if anything, likely to become even more relaxed, he says.

Mr Van Miert has already stated that strict competition principles will not be the sole guidelines for EC antitrust decisions over the next two years and that he wants to model EC policy more on the Japanese approach taking into account industrial, environmental, regional and social issues. If the net result is a further relaxation of the Brussels merger regime, industry may lobby even harder for lower thresholds.

Sir Sydney Lipworth, outgoing chairman of the UK's Monopolies and Mergers Commission, counsels caution, however. What industry likes so much about the Brussels regime is the possibility of quick clearance of a merger. But EC mergers and acquisitions activity has been at a low ebb over the past two

years. If M&A activity were to pick up and at the same time the thresholds came down increasing the number of mergers dealt with by Brussels, deadlines might begin to slip and the procedural certainty could be threatened, he says.

Whether the thresholds come down will ultimately be determined by the politicians. A year ago when Sir Leon was still in charge and the subsidiarity debate had yet to come to the fore a lowering of the thresholds looked on the cards. With Mr Van Miert at the helm and the political climate shifting against the ceding of more power to the centre, a reduction in the thresholds is less certain.

If the Commission is set on reducing the thresholds there will be a price to pay, Professor Hawk says. Germany and Britain, and to a lesser extent France, are likely to oppose any reduction. Germany's price for agreeing to a change would be the establishment of an EC mergers watchdog independent of the Commission or conceivably an independent EC cartel office based on its own Bundeskartellamt. It is not clear whether the UK would support Germany in this demand. Although not purporting to speak for the UK government, Sir Sydney has made it clear on a number of occasions that while he thinks the body responsible for investigating mergers should be as independent as possible he would stop short of the single all-pervading independent competition body sought by Germany.

Member states might also be prepared to agree to the thresholds coming down in return for a number of amendments to the regulation itself, Mr Reynolds says.

A strengthening of the exception which allows mergers above the threshold to be referred back to member states on the grounds that they affect a distinct national or regional market would be welcomed by Germany and the UK. Three requests from Germany in the Varta/Bosch; Mannesman/Hoesch; and Alcatel/AEG Kabel cases were all turned down. Only one merger Steetley/Tarmac has been referred back under this exception and that was largely because a related bid by Redland was already being investigated by the UK's MMC.

Most member states would also welcome a change in the EC's policy on negotiating settlements which would allow the Commission to accept behavioural undertakings in addition to structural changes.

And if Mr Van Miert is determined to extend his policy of considering factors other than pure competition, several member states would like to see those factors written into the regulation. A significant amount of political horse-trading lies ahead.

LEGAL BRIEFS



Defending the mark of a true Champagne

Champagne producers have never been slow to protect their appellation against those who attempt to trade on its reputation.

The latest in a long line of legal cases to be heard by the English High Court started yesterday. It concerns "Elderflower Champagne", a non-alcoholic cordial with added carbonated water, sold in green, Champagne-shaped bottles with wired mushroom corks, by Thorncroft Vineyard. At issue will be whether the consumer is likely to be misled into believing this is real Champagne.

While Thorncroft will argue that no one could possibly make that mistake, the Champagne producers believe they have ample evidence to show that people will be misled. Although its reputation is well known, few people know what Champagne really is - a unique sparkling wine produced only in the Champagne region of France, they say.

There is also a principle at stake. If Thorncroft is allowed to market its product unchallenged, others will follow and pretty soon the mark, Champagne, will have been destroyed, passing into the vernacular like other well-known marks before it, such as Gramophone, Hoover, Go-kart and Aspirin. The hearing is expected to last five days.

Control Securities

In our issue of December 22, we reported that Mr Nazmn Virani, currently being prosecuted in connection with the Bank of Credit and Commerce International investigation, was the head of Control Securities plc. Control Securities has asked us to point out that he is no longer with the company and is not being prosecuted in connection with his former role there.



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A Roman evening The Song of Tales

Some 20 years ago, almost at the onset of his career, the Neapolitan musicologist-composer Roberto De Simone created a spectacle entitled *La gatta Cenerentola* (The cat Cinderella), based largely on *Lo cunto delli cunti* (The Tale of Tales) by Giambattista Basile, the 17th century collection of fairy-tales that has inspired many subsequent works, among them Prokofiev's *Love of Three Oranges*. With liberal admixtures of mime, dance and traditional music (plus some music of his own) De Simone created a piece of stage magic, subsequently revived several times, and now a part of Italian theatrical history.

The recent announcement of a new De Simone full evening of Neapolitan song and story naturally aroused keen expectation among his fans, especially since the title *Lo cunto delli cunti* (The Song of Tales) again recalled Basile, and suggested that *La gatta Cenerentola* would have a successor. But the wily producer both disappointed and rewarded his admirers. The earlier piece was a kaleidoscope of visual invention and brilliant colour; the new work is sober to the point of starkness - the performers are all dressed in black - and movement is reduced to the essential minimum. But within these narrow, self-imposed confines, *Lo cunto delli cunti* proved to be as varied and thrilling as anyone could wish.

It began with Basile - a story of an Ogre and his garden - narrated, chanted and sung by seven singers, with subtle, deliberately scant accompaniment, then ranged through other traditional songs and stories to some versions of *Don Giovanni*, of which the most exhilarating saw Pulcinella standing in for Leporello, and then a hilarious hit of 18th century farce - *L'Opera di Zeza* - with enchanting pastiche music by De Simone, and with the superb Neapolitan actor Rino Marcelli, en travesti, as Zeza (before that, he had been a magnificent Pulcinella).

The second half featured more recent pieces: a staged poem by the late comedian Totò, in which two dead men - a street-sweeper (again the unparalleled Marcelli) and an aristocrat (the suitably pompous Enzo Piero) - come to wry conclusions about life and death; some songs of Salvatore Di Giacomo, the 19th-century poet whose lyrics were seized upon by generations of composers; and finally Viviani, a somewhat underestimated turn of the century author whose bitter streak distinguishes him from other Neapolitan humourists.

The outstanding quality of this production - apart from the unerring taste and interest of the selected material - was its coherence, its apparent spontaneity along with its impeccable organisation. In a sense there were no stars (even Marcelli worked in perfect synchrony with the others); and in another sense, the interpreters were all stars: the glittering constellation that, despite the almost bare stage and the funeral dress, lit up the Teatro Valle in Rome and, from there, should go on to shine in many other theatres.

William Weaver

The gentle manipulator of space is at it again

William Packer reviews Tim Head

It is easier to describe the work that Tim Head is currently exhibiting than either to justify or to condemn it. The first thing to strike us, even before we register his latest group of 15 canvases that occupies the huge lower gallery of the Whitechapel, is the space itself. We enter a room transformed, its walls now a light and uniform sky-blue, its floor covered with green plastic turf. Head, the gentle manipulator of space, the teasing confounder of familiarity and expectation, is at it again.

We need not go so far as his apologist, Marco Livingstone, who, in the catalogue essay, compares the experience with that of being placed "in the perfect stillness of an eternal heaven by Fra Angelico". There is no deception: the means are obvious. Yet this great space, even as we enter and recognise it, is not quite the Whitechapel we thought we knew. It is bigger somehow, higher, more open and airy; yet, at the same time, oddly more complete and enclosed.

Here hang these large canvases, 13 to the set and two more *hors serie*, with their immaculate surfaces and their self-consciously bland and enigmatic images. They are clearly untouched by hand, but the manner of their making is not readily apparent. Only the catalogue can tell us that they have been printed out on an ink-jet press, regulated by computer, the images amplified

from collage studies. It is at once frustrating and revealing that Head never shows such preparatory material.

What are we to make of these black, screen-like images, so gently curved and subtly speckled? Again, only the catalogue will tell us that they derive from "the kinds of shapes used in packaging and presentation... Intrigued that such shapes look comfortably familiar but also odd in their synthetic character, he built up a collection of them in the form of manufactured objects, sometimes drawing the outline directly from such things as plastic containers, at other times photocopying them and redrawing them. Gradually refining the selection so as to eliminate the most immediately recognisable forms, he arrived at a group of hybrid generic motifs whose particular origins can no longer be identified."

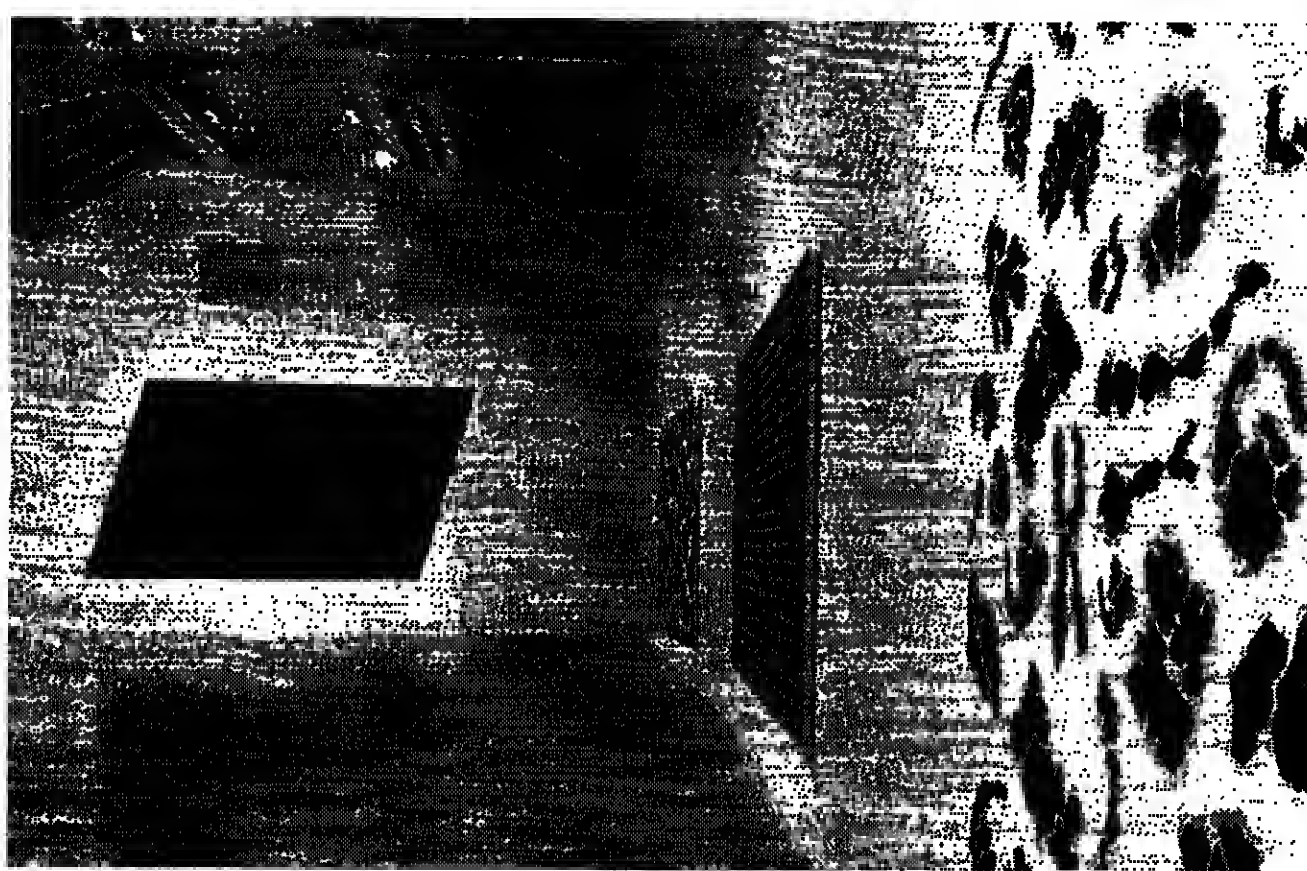
Upstairs, past the slide documentary of past work and the "Happy Baters" in the Gallery's cafe, we come to another total appropriation of the particular space. The small New Gallery has been blacked out and ultra-violet lamps installed to pick out the myriad coloured stick-on labels scattered across the walls and ceiling. The trick is simple enough and the effect engaging, as it were the darkest of nights and the stars bright in the firmament, "the floor of heaven thick inlaid

with patinas of bright... well, yellow and green and blue and red.

The Upper Gallery holds a selection of Head's work of the 1980s, and it is here that his preoccupation with the synthetic product and detritus of the modern, processed, computer-driven world is made clear. Here are the large cibachrome photographs, produced to the highest gloss of contemporary advertising, that take still-life as their ironical, impassive subject. Here is a heap of plastic toys, pastel-coloured skulls that are really rubbers, rockets, toy cars; and here a King Kong cityscape of transistor radios, computers, product packaging, vibrators as skyscrapers.

Here too are the effluent and toxic landscapes, the clichés of what might be pools or swamps filled with whatever we choose to throw away, plastic bottle, strip and filler, unbludgegradable to the last button. The charge is inevitable, but Head insists he is not an issues artist. "It's not straight-forward, and that's what makes it interesting. I am drawn to these things. Close up, they have a strange physical beauty that I find compelling... We can't pretend that this stuff doesn't exist."

Further along hangs the "Cow Mutation" painting, with which he wooed the John Moores Prize of 1986. It is again a large canvas, but this time painted directly and simply in black



Tim Head's latest group of huge canvases is transforming the Whitechapel Gallery

and white, the image derived from the cow motif by the anonymous designer of the particular milk carton. And by degrees the poor cow disintegrates in formal frenzy before our eyes. No issue there. The series continues with such works as *Prime Cuts*, *Deep Freezes* and *Replicator*, each apparently prettier and more disarming than the next in its sophisticated simplicity, whites and pinks, violets and blues, so redolent of late Matisse. It is only the imagery itself that gives us pause, images of cells

and organisms, mutant as may be, beneath the microscope. The large green and black triptych at the end carries as its image a map of the world, its continents and oceans breaking down in a desperate confusion. As I say, no issue there.

Head, it seems to me, is very much an artist of his time and place, fortunate in the sympathetic interest his work has elicited over the years, by its very nature, in the eyes of those who command the public patronage of the British art

world. That of itself is no disqualification, and Head no less an artist, of considerable refinement and intelligence moreover, for the support he has enjoyed.

My feeling is only that he is as yet not fully the artist he is capable of being simply because he has yet to trust himself fully to experience and intuition, rather than, as hitherto, to idea and process. He is the victim still of his background, Newcastle in the 1960s, under the influence of Richard Hamilton, and the

heresy that persists so destructively to this day, that art, to be art, must be about ideas - as though ideas alone could make a Titian, a Rembrandt or a Matisse. Idea and attitude are but the straitjacket of the aesthete and the curatorial pedant, and Head, I should have thought, too clever not to escape.

Tim Head: Whitechapel Art Gallery, Whitechapel High Street E1, until February 28, then to Manchester City Art Galleries. Sponsored by Beck's

Theatre in New York My Favorite Year

Remember 1964? I don't. I was not yet born during the heyday of live television comedy and matinee idols, the era in which *My Favorite Year*, the first Broadway musical of the New York season, is set.

But I can certainly remember the 1980s and early '90s, as musicals like *Phantom of the Opera*, *Starlight Express*, and *Miss Saigon* have upped the genre's technological ante at the expense of originality and humanity. These memories have a lot to do with why I found *My Favorite Year*, which recently played at the Vivian Beaumont Theatre in a Lincoln Center Theatre production, so wonderfully refreshing.

This new musical, based on the 1982 film of the same name starring Peter O'Toole, is far from perfect, but what it has in large supply, which so many of today's musicals lack, is charm. It is a good, self-contained, self-controlled little musical, and unlike last season's nostalgia vehicles - the Gershwin mishmash *Crazy for You* and Jerry Zaks' over the top revival of *Gypsy* and *Dolls* - it does not give the sense of material worked over and tarted up with making millions in mind.

The creative team - lyricist Lynn Ahrens, composer Stephen Flaherty and writer Joseph Dougherty - has filled out the movie's strong story line with a tight, clever book and tuneful songs that spring naturally from the action and dialogue. It is the tale of junior comedy writer Benji Stone (Evan Pappas), who is assigned to keep his now-faded and drunken childhood movie idol Alan Swann (Tim Curry) off the sauce for the week Swann is the guest star of "King Kaiser's Comedy Cavalcade".

Given that set up, everything that you think will happen happens, with a decidedly 1980's personal-growth twist. Swann charms everyone, falls off the wagon and clambors on again just in time to save the day and make up with his long-neglected teenage daughter. Handling Swann mixes



Evan Pappas as Benji: as simple and perky as his bow tie

up Benji's life just enough so that he can really shine in straightening it out: he gets the girl; recognition for his yeoman writing duties; and in bonding with Swann works through some lingering bad feelings about his own father, who deserted his family when Benji was young. It is all pretty predictable, but Ron Lagomarsino's production clips along with such verve and it is all played with such freshness that the lack of originality does not seem to matter.

Pappas' Benji embodies what makes *My Favorite Year* charming: he is as simple and perky as his bow tie, with a soaring singing voice and some of the production's best numbers on which to show it off. Curry's Alan Swann is less successful; he is too obviously playing at star quality, the essence of which is effortlessness. A shame, because when he lets down his hair, as in his climactic confrontation

with Benji in "The Lights Come Up," his natural magnetism is estimable: he can swashbuckle through my musicals in his Musketeer getup anytime.

Andrea Martin, as the double-taking second-banana comedy writer Alice Miller, gets the show's best laughs and its cleverest musical number: "Professional Show-business Comedy." Her performance is almost too excellent, though, because it points out what keeps *My Favorite Year* merely good instead of sublime. If only the whole production had her dead-on, period-specific zing!

My Favorite Year saves the title tune, its most memorable, for last and is this good, old-fashioned musical's final nod to the classic rules of showbusiness: it leaves 'em humming.

Karen Fricker

Concerts/Richard Fairman

A weekend with Janáček

In 1926 Janáček came to London for the most important overseas visit he undertook to promote his music. Unfortunately, his timing was not propitious: a couple of days before the main concert the country was plunged into a general strike, leaving no programmes, no transport and no newspapers to advertise the event or carry reports of it. He returned to Czechoslovakia disappointed and dejected.

The irony of this failed attempt to find a wider international audience is that since the 1950s it has been in this country, as much as any, that Janáček's music has come to prominence and popularity. The idea of a weekend devoted to a survey of his music, supported by films and talks, is one that no serious music-lover today would begin to question.

Over the past few years these BBC single-composer weekends at the Barbican have become a regular feature of London's musical life. But what started out as an ambitious project to put before the public in-depth profiles of difficult 20th-century composers is now edging on to safer ground. Last year's choice was Berg, for the first time not a living composer, and now we have in Janáček one who has a large corpus of his works - the operas - already accepted by the public at large.

As a result, the emphasis has changed. The importance of this weekend shifted to the smaller pieces, although the larger orchestral scores - *Taras Bulba* and the Sinfonietta - were included to provide a rousing climax to each evening, as they most certainly did in these muscular and dynamic performances by a BBC Symphony Orchestra in very fine fettle under Andrew Davis.

So central is the place occupied by the operas in Janáček's output that at least one had to be included. This was *From the House of the Dead*, arguably the most suited to concert performance. Again Davis goaded the music forwards with an awesome grip on its vital energy, giving the lie to the theory that the opera does not have much narrative drive, but it was out in the end an especially moving performance. A well-chosen cast, headed by Jan Blahosky as a Filka Morozov of raw power, Kim Begley as a clarion Skuratov and Russell Smythe an impassioned Shishkov, seemed locked in the opera's claustrophobic ambience of prison violence. There was less of the tenderness that gives the opera its humanity.

The "spark of God" which Janáček saw in each of these characters encapsulates one of the personal beliefs that is expressed throughout his music. With their out-of-the-ordinary plots, focusing upon the human condition, the operas are able to develop those feelings in a way denied his other music. Of the rare works performed during this weekend, the "Danube" Symphony, receiving its first UK performance, roamed across folk territory and down modernist paths with no very convincing sense of direction. The Violin Concerto, recently "realised" from the composer's sketches, remains a wildly inventive, but unsatisfying torso.

From other areas of his output there was a selection of the piano music, all fascinatingly individual, played by Radoslaw Kwiecinski. The BBC Singers under Simon Joly ventured into the (mostly) unaccompanied choral music, including a drawn-out, but surprisingly sensual setting of the Lord's Prayer. There is a lot of folk arrangements that might have been added, but at nearly an hour in length this sample was enough.

Altogether, the most entertaining single programme of the weekend was the Sunday afternoon chamber music recital. From a searing account of the First String Quartet by the Lindsay Quartet, it continued via a brilliantly sparkling *Mládí* from London Winds to the Concertino, which picks up on the animal life so beloved by Janáček. This was, in fact, the very programme as he intended it for the Wigmore Hall on his visit in 1926 - a happy case of musical dues at last being paid.

The very programme Janáček intended for 1926 was generously applauded

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INTERNATIONAL ARTS GUIDE

AMSTERDAM

Beurs van Berlage Tonight at 20.15, John Adams conducts Schoenberg Ensemble in world premiere of his new chamber symphony. Sun afternoon: American programme with Netherlands Chamber Chorus (6270 486)

Concertgebouw Tonight's performance is a song recital by Robert Hall. Tomorrow, Thurs, Fri and Sun afternoon: Alain Lombard conducts Rayel Concertgebouw Orchestra in works by Fauré, Ravel and Tchaikovsky. Sat: Tan Koopman directs Bach's Brandenburg Concertos. Sun afternoon: Shostakovich programme with Minsk Philharmonic Orchestra. Mon: Beaux Arts Trio (6718 345) Muziektheater Hertrich Birtwistle's *Punch and Judy*, etaged by Pierre Audi and conducted by Oliver Knussen, can be seen tomorrow, Sun, next Tues and Fri. Richard Jones' new production of *Der fliegende Holländer* opens next Mon, with

a cast headed by Wolfgang Schoene and Kathryn Harflee (in repertoire till Feb 21). Next Wed: first of four performances by Nederlands Dans Theater (6255 458)

BRUSSELS

Palais des Beaux Arts 20.00 Jene Glover conducts Belgian National Orchestra in works by Haydn, Mozart and Spohr. Next Tues: Tan Koopman directs Bech's Brandenburg Concertos. Jan 29: Alfred Brendel (507 8200) Munnele 20.00 Gidon Johannes Rumstedt conducts a revival of Peter Musbach's production of *From the House of the Dead* (repeated tomorrow, Fri, Sun, next Tues, Wed and Fri). Sat: Jeanne Pfland sang recital (219 6341)

Espece Temps Tomorrow, Thurs, Fri, Sat: Anne Tarsa De Kaersmeeker's experimental dance group *Roses* in a programme entitled *Erts*, music by Beethoven, Webern and Shnitke (264 avenue Van Valxem, tel 219 6341)

CHICAGO

CHICAGO SYMPHONY Daniel Barenboim conducts *Tristan and Isolde* Act 2 tonight at Orchestra Hall, with Siegfried Jerusalem and Waltraud Meier. Thurs, Fri, Sat and Sun: Barenboim conducts works by Rimsky-Korsakov, Shostakovich and Tchaikovsky, with violin soloist Maxim Vengerov (435 8866) CHICAGO LYRIC OPERA On Sat at Civic Opera House,

Zubin Mehta conducts the first night of August Everding's production of *Das Rheingold*, with James Morris, Eckehard Wlaschich, Bryn Terfel and Teresa Travenco (further performances on Jan 26, 28, Feb 1, 3, 5, 9, 12). Fri: last performance this season of *La bohème* (332 2244)

PARIS

DANCE/OPERA Palais Garnier Paul Taylor Dance Company, daily till Sun. Jan 29: revival of Nureyev production of *La Bayadère* (4742 5371). Jan 29-Feb 6 at Théâtre de la Ville: Anne Tarsa de Keersmaeker (4274 2277) Opéra Comique William Christie conducts *Alfred Arias* Alx production of *Les Indes Galantes*, daily till Jan 29 except Thurs, Man and next Thurs (4286 8883) Théâtre des Champs-Élysées Tonight: opening of two-week season by St Petersburg National Opera with a staged performance of Tchaikovsky's *Iolanta* (also Jan 30, 31). Sat, Sun, next Fri: Prince Igor. Next Tues, Wed, Thurs: The Golden Cockerel (4720 3637) Opéra Bastille Tonight, Fri and next Mon: Elektra with Gwyneth Jones (tonight) and Jenis Martin (Fri and Mon). Tomorrow and Sat: Un ballet in maschera with Dennis O'Neill, Alein Fandary and Gabriela Benackova (in repertoire till Feb 20). Jan 30: revival of *Les Contes d'Hoffmann* (4001 1618) CONCERTS Châtelet Tonight: Guarneri

Quartet and Elisabeth Leonskaja play chamber music by Dvořák and Shostakovich. Next Mon: John Poole conducts Groupe Vocal de France in world premiere of Takemitsu's *Wind Horse* (4028 2840) Salle Pleyel Tomorrow, Fri and Sat: Semyon Bychkov conducts Orchestre de Paris and Chorus in works by Smetana, Beethoven and Janáček (4563 0796). Sun afternoon at La Rêve-Point, Théâtre Renaud-Barrault: Urs Schneider conducts Orchestre National d'Île de France in works by Mozart and Tchaikovsky, with piano soloist Frank Braley (4296 1227) Théâtre des Champs-Élysées Thurs: Charles Outolt conducts Orchestre National de France in works by Dvořák and Prokofiev, with cello soloist Yu Yu Ma (4720 3637) JAZZ Carmen Bradford, jazz vocalist and long-time associate of the Count Basie Orchestra, is at Jazz Club Linea Hampton daily till Sat Jan 25-Feb 8: Strunz and Farah. Music from 22.30 (Hôtel Meridien Paris Etoile, 81 Boulevard Gauguier St Cyr, tel 4068 3042) THEATRE

Desire under the Elms: Eugene O'Neill's 1924 play directed by Matthias Langhoff. Opens Jan 28, runs till Feb 28 (Théâtre des Amateurs, 7 ave Pablin Picassin, Nanterre, 4614 7000) Ubu: Alfred Jarry's irreverent black comedy which has become a classic of French theatre since its uproarious Paris premiere

In 1896. Daily except Mon till Feb 7 (Ox-Huit Théâtre, 16 rue Georges Agutte, 18e, 4228 4747) ● Marie Tudor: a transfer from Lille of Daniel Mesguich's much-admired production of Victor Hugo. Daily except Mon (Maison des arts, place Salvador Allende, Creteil, 4980 1888)

WASHINGTON

KENNEDY CENTER Bill T Jones dance company can be seen tonight in the Terrace Theatre. Washington Opera presents *La Cenerentola* tonight, Thurs, Sat and Mon at Eisenhower Theater, plus Bize's *Pearl Fishers* on Fri. Metislaw Rostropovich conducts National Symphony Orchestra in works by Makris, Sarasate, Szymonowski and Strauss on Thurs, Fri and Sat in the Concert Hall (202-467 4800). Sun afternoon: Mikhail Pletnev conducts Russian National Orchestra in works by Tchaikovsky, Prokofiev and Scriabin (202-833 9800) WARNER THEATRE Twyla Tharp and Mikhail Baryshnikov appear together at e Washington Performing Arts Society event next Mon, Tues and Wed (202-833 9800) BALTIMORE SYMPHONY ORCHESTRA David Zinman conducts works by Copland and Beethoven on Fri and next Tues: Madame Butterfly with Yuko Watanabe. Sun: ballet premiere with works by Arthur Saint-Léon, Nijinski, Bernd Bienert and Jorma Uutinen (262 0909) CONCERTS Tonight, Thurs and Fri in the Tanhalle, Cleus Pater Flor conducts Tanhalle Orchestra in works by Schumann and Brahms, with piano soloist Rudolf Buchbinder (206 3434). Tomorrow (repeated on Thurs in Laueanne and Fri in Geneva): Esa-Pekka Salonen conducts Swedish Radio Symphony Orchestra in works by Lutoslawski, Mozart and Bartók. (261 1600)

● The Alchemist: Ben Jansun's 17th century play of greed and deception. Opens tomorrow, till Feb 21 (Washington Stage Guild 202-529 2084) ● Free Will and Wanton Lust: Nicky Silver is author and director of this comic drama of dysfunctional family relationships. Till Feb 14 (Woolly Mammoth 202-393 3939) ● Rosencrantz and Guildenstern are Dead: Tim Stoppard's popular play. Till Feb 14 (Studio Theatre 202-332 3300) ● It's the Truth, if you think it is: Pirendelli's mystery thriller directed by Liviu Ciulei. Till Feb 21 (Arena Stage 202-488 3300)

ZURICH

OPERA William Shimall sings the title role in Don Giovanni tomorrow at the Opernhaus. Thurs end Sat: Nikolaus Harnoncourt conducts Coai fan tutte, with Lucia Papp. Fri and next Tues: Madame Butterfly with Yuko Watanabe. Sun: ballet premiere with works by Arthur Saint-Léon, Nijinski, Bernd Bienert and Jorma Uutinen (262 0909) CONCERTS Tonight, Thurs and Fri in the Tanhalle, Cleus Pater Flor conducts Tanhalle Orchestra in works by Schumann and Brahms, with piano soloist Rudolf Buchbinder (206 3434). Tomorrow (repeated on Thurs in Laueanne and Fri in Geneva): Esa-Pekka Salonen conducts Swedish Radio Symphony Orchestra in works by Lutoslawski, Mozart and Bartók. (261 1600)

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Super Channel 0700-0710, 1230-1240, 2230-2240 FT Business Daily 0710-0730, 1240-1300 (Mon, Thurs) FT Business Weekly - global business report with James Bellini 0710-0730, 1240-1300 (Wed) FT Media Europe 0710-0730, 1240-1300 (Fri) FT Eastern Europe Report 2240-2248 FT Report

Sky News 2030-2100, 2230-2300 FT Business Weekly

SATURDAY

CNN 0900-0930, 1900-1930 World Business This Week - a joint FT/CNN production

Super Channel 0830-0900 FT Business Weekly

Sky News 0130-1200, 1730-1800 FT Media Europe

SUNDAY

CNN 1030-1100, 1900-1930 World Business This Week

Super Channel 1900-1930 FT Business Weekly

Sky News 0130-0200, 0530-0600 FT Media Europe 1330-1400, 2030-2100 FT Business Weekly

Hong Kong is daring to hope. Conciliatory comments by both Chinese officials and Governor Chris Patten have raised expectations that a compromise over the colony's political development might be achievable.

The stock market - the most visible indicator of the colony's mood - in the first weeks of the year has recouped much of the losses it sustained in December, when China suggested it might not honour business contracts in the colony that span the transfer of sovereignty in 1997.

Mr Allen Lee, leader of Hong Kong's main conservative political grouping, who this morning will meet Mr John Major, Britain's prime minister, says that the atmosphere in the colony has improved markedly since the beginning of the year. In today's talks, he will press Mr Major to amend Britain's proposals for increased democracy in the colony to make them more acceptable to China.

A more flexible stance by Mr Patten is one of the reasons for the colony's increased optimism. While maintaining his "principles" - that arrangements for the colony's 1994-95 elections have to be fair, open and acceptable to Hong Kong - he has indicated a greater willingness to consider alternatives to his plans. Last week he even reminded the members of the Legislative Council (LegCo), the colony's law-making body, that political reforms in the colony must be acceptable to China.

Beijing, for its part, has restrained its personal attacks on Mr Patten. It has also adopted a softer tone on political matters. Mr Lu Ping, Beijing's most senior official involved in Hong Kong affairs, has played down reports that China would set up a shadow government in Hong Kong if Mr Patten persisted with his proposals.

But there are also fears that what looks like accommodation on both sides is simply a change in tactics, designed to make their respective positions more appealing to an increasingly divided population in Hong Kong.

"What I am afraid of is the continuation of a stalemate - a situation where Mr Patten introduces his package, pushes it through LegCo, and China decides to go its own way," says Mr Lee. "We cannot afford to live with four years of China not co-operating with the UK."

This view, widely held in the colony, is most strongly felt in

Flexibility wins friends

Pressure is growing for a compromise on Hong Kong, writes Simon Holberton

the business community. Mr William Fung, managing director of Li & Fung, a trading company, says: "When the Basic Law [the mini-constitution, published in 1990 by Beijing, for Hong Kong after it reverts to Chinese sovereignty] came out, people thought it was a broadly acceptable basis for Hong Kong's future. Why, then, has the governor decided to upset the apple cart?"

Mr Chan Wing Kee, managing director of the Yangtze-Kiang Garment Manufacturing Company and chairman of the Hong Kong Exporters Association, suggests the direction of Mr Patten's reforms is misplaced.

"The 1995 elections are not the most important thing facing us," he says. "What is important is the first chief executive [CEO] of the Special Administrative Region and how he will work for Hong Kong and China. We still live in a place where who is in charge is more important than the system. If you push China into a corner, the CEO may not be the best one for Hong Kong."

But the "system" is where the fate of Mr Patten's proposals will be decided. LegCo will receive the governor's legisla-



Governor Chris Patten: his plans could be amended

Mr Allen Lee, or to the democrats, headed by Mr Martin Lee, who support Mr Patten's proposals.

The independents hope that LegCo can produce legislation that manages both to preserve Mr Patten's democratic intent - a broadening of the franchise - and to go some way towards answering China's concerns. But achieving both will be difficult.

China has said that its objections to Mr Patten's proposals are less to do with democracy than with honouring past Sino-British agreements

tion towards the end of next month, and it will then initiate the process of legislative review by which it is ratified. The process promises to be protracted.

"The legislation will be scrutinised clause by clause and many amendments will be made; it will be messy and time consuming," says Mr Simon Ip, the legal profession's representative in LegCo.

Mr Ip is one of the increasingly influential group of independent LegCo members who do not belong either to the main conservative group, headed by

China has always regarded Hong Kong's political development as an issue to be settled between itself and Britain. Beijing has been dismissive of LegCo, referring to it as only a consultative body.

Moreover, in the current row China has said that its objections to Mr Patten's proposals are less to do with democracy than with honouring past Sino-British agreements. It charges Mr Patten with repudiating a 1990 understanding between the UK and China concerning the 1995 LegCo polls. Mr Patten's proposals, it

says, violate the "spirit" of past agreements in two ways. According to one proposal, the "election committee", which will appoint 10 of the 22 LegCo members in 1995, would consist of 250 popularly elected local officials. In 1990 Britain gave provisional endorsement to a body that would have a narrower franchise.

His plans for nine new "functional" constituencies have also angered China. The 21 functional representatives in the current LegCo are drawn from and elected by specific professional and business groups, such as doctors and lawyers. Mr Patten's nine additional seats would be drawn from a broader constituency, encompassing all workers.

Many LegCo members hope that, if they can amend Mr Patten's political reforms along the lines of the 1990 "agreements", China may acquiesce. In particular, support is gathering among independents to preserve the existing system of functional constituencies and to devise an election committee that is more consistent with the Basic Law. "We are all looking for a way out," says Mr Vincent Cheng, Hong Kong Bank's chief economist and an appointed legislator.

There is also growing support for an amendment, first suggested by Mr Jimmy McGregor, an independent democrat, to limit elections to voting for one member of LegCo. "If we can implement one man, one vote, then how the new functional constituencies are drawn up is a secondary issue," says Mr Cheng.

He points out that, under the current system and the one proposed by Mr Patten, a single elector, who has a recognised profession and is a company owner, could have three votes: one for his professional affiliation, one through his membership of the chamber of commerce, and one for a geographical constituency.

Such an amendment, which would end Mr Patten's plans for nine democratically elected functional seats, could please Beijing. But whether the amendments that emerge from LegCo's negotiations can provide the basis for a compromise between Mr Patten and China will be clear only after the talking stops.

For now, and out before time, local politicians will be given a greater say in the process of transition to Chinese rule and the political system which will follow. Beijing may find it harder to reject their judgments than those of the final British governor.

Joe Rogaly

The reluctant policeman



The idea that President-elect Bill Clinton will escape from the clutches of foreign policy is a pipe dream. He hopes to devote nearly all his time to US domestic affairs. He can forget that. When he delivers his inaugural address tomorrow, the smoke will be rising from bombed-out ruins in Baghdad. Americans will be less fired in Sarajevo while the remnants of the Soviet empire will still be in danger of further collapse into a series of local wars. Any of the eastern states, including Russia, might fall victim to a right-wing coup. Their nuclear arsenals are still intact. The US cannot ignore such threats to its security.

Mr Clinton should know. He is a "wonk", a swot, a voracious reader. He has studied the history of his predecessors. Every inaugural speech since the conclusion of the 1939-45 war has included a promise that Uncle Sam will continue to act as the world's policeman, or at least as a global peacemaker. On January 20, 1949, President Truman spoke of opposition to a regime that adhered to a "false philosophy". It lasted for 40 years. Mr Truman announced the establishment of a new defence pact, which, three months later, became Nato. In January 1953 General Eisenhower was equally clear. "To meet the challenge of our time," he said, "destiny has laid upon our country the responsibility of the free world's leadership."

No one will forget President Kennedy's "pay any price, bear any burden" speech of 1961. Four years later President Johnson vowed that "in con-

cert with other nations, we shall help men defend their freedom". It took President Nixon nearly two terms to extricate the US from the Vietnam war, a direct consequence of the Kennedy-Johnson dicta. In spite of that experience, President Carter devoted part of his drowsy address of January 1977 to a message "to you, citizens of the world". It included an undertaking that "the United States will meet its obligation to help create a stable, just and peaceful world order".

Mr Carter was unlucky. Iran held US citizens hostage until the day after he stepped down. In 1981 President Reagan's first speech was focused on the domestic economy, as Governor Clinton's is expected to be tomorrow. Yet Mr Reagan warned: "We will maintain a sufficient strength to prevail if need be, knowing that if we do so we have the best chance of not having to use that strength."

He has since boasted that that sentiment won him the cold war. He could be right. His successor was not so fortunate. After his inauguration on January 20, 1989, when he predicted that "the day of the dictator is over", President Bush was caught napping by the falls of both Mr Gorbachev and the Communist party of the Soviet Union. He tried to construct a post-cold war policy, around the notion of a "new world order". Actions were to be legitimised by the United Nations and supported by American power. He did well in assembling the coalition that won the first Gulf

war. He does not, however, leave office with a new order in place. In Iraq, the day of the dictator is demonstrably not over.

Mr Bush's problem - our problem - is that no convincing mechanism for a global foreign policy or its regional constituent parts exists. Mr Clinton has known this. "We cannot go four more years without a plan to lead the world," he says in Putting People First, the book of his campaign. In a sentence that could easily fit into tomorrow's address he adds: "The defence of freedom and the promotion of democracy around the world not only reflect our deepest values; they serve our national interest."

He does not actually have a plan, but proposes to appoint a team to construct one. Yet he has been invited to believe that the anti-Vietnam war generation, of which Mr Clinton is the most celebrated product, may dissociate the world's most powerful republic from its previous international concerns.

The issue is not isolationism. That narrow sentiment is stronger now than the Soviet threat has disappeared. It will thrive while so many domestic problems are pressing. It flourishes in recession. But it cannot prevail. The world will not allow it to do so. What Mr Clinton needs is a structure that can guide the conduct of US relations with other states. Foreign ministries knew where they stood when there were two superpowers and a third world. Nobody knows quite what to think now that those neat divisions have faded.

What we outsiders will look for in tomorrow's inaugural address is more than a mere ritual affirmation of America's acceptance of its global reach. We need to see evidence that Mr Clinton meant what he said when he wrote last year: "We must define a new national security policy to build on the victory of freedom in the cold war." If he cannot find a single theme, a grouping of policies for specific areas will do.

For example, the bombing has not yet destroyed Mr Saddam. It can only defeat or contain Iraq as part of a regional strategy that has been clearly thought through. There are many questions for the policy wonk. Does Washington see a long-term threat in a resurgent Iran? Is there to be a pause in the Middle East peace negotiations, now that a president beholden to the Israeli lobby has been elected? Is Syria to be trusted? Again, incremental yet ineffectual measures in former Yugoslavia have not yet brought peace. The Vance-Owen plan is ingenious, but lasting stability can only be guaranteed when we have a European-American alliance that is willing and able to defend the principle that borders are not to be changed by force. As to Russia, the maintenance of a democratic, pro-market government in office is of at least as much importance to the US as any single domestic programme.

Yet Washington can no longer be relied on to support global policies on its own. It demands participating allies. This is reasonable. I offer these phrases to the Clinton inaugural address: "We shall pay part of any price, share any burden, meet a fair percentage of any hardship... in order to assure the survival and success of liberty." The new president will have to pin something like that on his wall. There is no serious alternative.

In Mr Clinton's address, we need to see evidence that he has begun to define a new national security policy 'to build on the victory of freedom in the cold war'

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Pay plight of young people

From Mr Sam Johnston.

Sir, Your article on the pay falls experienced by under 21-year-olds, when compared with older workers ("Under 21s slip behind in pay", January 14) highlights a big issue - and the fact that there has been "no evidence of systematic falls" since young people were removed from wages council protection should not be used to detract from its significance.

Young people are in an increasingly precarious position. In addition to low pay we have seen in recent years the removal of income support from 16-17-year-olds, introduction of student loans, decline of the Youth Service, continual changes in education and more generally rising homelessness and unemployment.

Young people are the future of the country and we ignore their plight at our peril. Sam Johnston, acting national secretary, National Council of YMCAs, 640 Forest Road, London E11 3DZ

Regulatory review must not tie independent financial advisers

From Mr G H E Hill.

Sir, You are right in your leading article, to call for the alternatives to the Personal Investment Authority to be spelt out ("City regulation", January 14). The members of the existing self-regulatory organisations (SROs) will decide whether the PIA comes into existence. They need to know the implications of their decisions before they vote and they should be aware of planned changes within which SROs will operate.

However, your suggestions that Fimbra, the regulator for

financial intermediaries, could be absorbed within a strengthened Lauro, the regulator for unit trust and life companies, and that independent financial advisers would have to become tied agents, except where they could obtain authorisation through professional bodies, is misguided. While examples of poor advice being given have come to light (incidentally, largely from tied agents), these have affected a small minority of the recipients of advice.

A far more pernicious consequence of the Financial Services Act has been the contrac-

tion in the availability of independent advice. However tough the regulatory environment, "tied advice" will not be a universally adequate substitute for independent advice. It is, therefore, important that the current review of SROs does not force independent financial advisers into the tied agency sector.

G H E Hill, managing director, National Mutual Life Assurance, The Priory, Hitchin, Herts SG5 2DW

Efficiency greater in the parts than the whole

From Prof Leon Hollerman.

Sir, In his column (Economic Viewpoint, January 14) Samuel Brittan states "The US still produces much more per head than its main competitors, including Japan."

This is true only if you compare the Japanese economy as

a whole with the US economy as a whole. Sector by sector, you get quite different results. Compare, for example, the efficiency of Japanese agriculture with that of the US. In manufacturing, however, which is what Samuel Brittan was writing about, Japan's efficiency is

greater than that of the US. Leon Hollerman, professor of economics, Peter F Drucker Graduate Management Center, Claremont Graduate School, 4252 Via Padova, Claremont, California 91711, US

Abolition of ACT would be to throw out baby with bathwater

From J C Barnsley.

Sir, Your articles ("Government urged to look at ACT issue" and UK company news, January 12) on the problems that advance corporation tax is causing for many UK-based companies made some telling points, but might have given a somewhat misleading impression of the ACT system. It does have good points.

● When a company accounts for ACT, on paying a dividend, it also gives its shareholders an equal tax credit to set against their own personal UK tax liabilities. The ACT that

can be set against the company's corporation tax bill is not a long-term cost to the company. Only ACT that cannot be used in this way (surplus ACT) is a real cost to the company, and even then the creation of that surplus ACT will have provided an equivalent economic benefit for its shareholders.

● The tendency of the ACT system to encourage profitable investment in the UK rather than overseas might be seen as helpful with the UK in recession and 3m unemployed.

So while the system clearly

has flaws, any call for its abolition would be throwing the baby out with the bathwater. The preferable approach, which the 100 Group is taking, is to suggest constructive changes to relieve the worst of the current problems.

The most obvious and eminently simple improvement is to get rid of the antiquated rule restricting the amount of ACT paid that can be set against corporation tax due. Allowing pound for pound set-off would improve utilisation at relatively low cost. ACT is an important tax.

Flaws in its operation have been swept under the carpet for far too long. By some positive indication in the budget, such as abolishing the limitation on setting ACT against corporation tax, the chancellor would show that he recognises this and is seriously considering ways to improve the system without losing unacceptable amounts of tax.

J C Barnsley, director of tax services, Price Waterhouse, Southwark Towers, 32 London Bridge Street, London SE1 9SY

No climb down by Prince Sihanouk over Cambodia development

From E L Bindra.

Sir, The heading of the news item "Sihanouk climbs down" (January 11) is used in a derogatory manner, which means "he withdrew attention from a previously held position by admitting that he was wrong". This is not only inaccurate, but there is also absolutely no basis for such a conclusion.

The facts that, under section 11, article 6, of the Paris Peace Agreement, the UN Transitional Authority in Cambodia (Untac) had to take direct control of the ministries of foreign affairs, defence, public security, finance and information, as well as other administrative agencies, bodies and offices, which could directly influence the outcome of the elections. Besides, all the civil police were to operate under Untac's direct control or super-

vision in order to ensure that law and order are maintained effectively and impartially, and that human rights and fundamental freedoms are fully protected. Unfortunately Untac failed to implement it properly, with the result that the Vietnamese installed a communist regime in Phnom-Penh (though less brutal than the Khmer Rouge, it has always suppressed dissent; its human rights record has been criticised by Amnesty and Asia Watch), which has been attacking and intimidating both the non-communist factions, so that they should not carry on their electioneering campaigns outside Phnom-Penh.

Prince Norodom Sihanouk had denounced the Phnom-Penh faction for a series of bombings and other attacks on both the non-communist par-

ties, and also Untac for not controlling the violence (as it had not taken full direct control of the administration). The prince had warned on December 14 1992 that "unless both acted vigorously 'against the poisoning of public atmosphere... and such injustices and political terrorism', he would stop co-operating with them. As the intimidation and killing of non-communist functionaries increased in the next fortnight, he had no option but to stop co-operating with them."

It had the desired effect. Mr Akashi (Untac chief) asked Untac to take full control of the situation, to create a neutral political environment. He called on Prince Sihanouk in Beijing on January 8, and explained to him the action he had taken. He further assured the prince that both the non-

communist fronts will no longer be intimidated in future, and will be properly protected from attacks by the Phnom Penh faction.

The prince accepted the assurance, and agreed to co-operate. Though he is ill, he even agreed to preside over a meeting of the supreme national council of Cambodia in Beijing, at the end of the month, to solve some urgent problems.

As such, by no stretch of the imagination is this a "climb down". Instead of complimenting Prince Sihanouk for his achievements, he is sneered at. This reminds me: "East is East, and West is West, and never the twain shall meet." E L Bindra, 15 Elmstead Avenue, Wembley, Middlesex

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FINANCIAL TIMES

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Tuesday January 19 1993

The carrot and the stick

THE ESCALATING confrontation between Iraq and the western allies has all the grim inevitability of a play in which both sides are playing prescribed roles when neither can be sure of the ending. President Saddam Hussein constantly tests and taunts the allies' resolve; the US, Britain and France respond with shows of military force that are designed to punish him but may serve to bolster his standing at home and in the wider Arab world.

What the allies lack at present is a coherent political strategy to match their military muscle. This is worrying, for without one they may be condemned to further escalation almost for its own sake, with the eventual risk of a serious foreign policy debacle. It is not that a specific rationale is wanting for the west's individual actions. The air raids on anti-aircraft missile systems last week and yesterday are politically justifiable in that they are designed to remove threats to the implementation of the no-fly zones imposed over the north and south of the country in defence of Iraq's Kurdish and Shia Moslem populations. Sunday's cruise missile attack on a nuclear component plant in the outskirts of Baghdad was defensible as an appropriate response to Saddam's persistent refusal to give UN inspection teams unconditional access to military facilities.

But as the attacks, and Saddam's "cheat and retreat" tactics, continue, it must be asked: what, overall, is the west trying to achieve? And in what way do its actions, taken as a whole, bring that goal closer?

Far from clear. If the answer to the first question is Saddam's removal from power, it is far from clear from official statements in Washington, London and Paris. The emphasis, rather, is on the more limited tasks of enforcing the terms of the Gulf war ceasefire and helping to protect Iraqi citizens from their leader's worst excesses.

This obfuscation is understandable. It would be hard to imagine a strategy aiming explicitly at the toppling of Saddam securing a consensus in the UN Security Council, any more than such an objective was a formal aim of the broad-based coalition that fought

the Gulf war two years ago. Even if the western allies did spell out their desire to remove the Iraqi leader, they are most unlikely to be able to do the job themselves.

It may be argued, by extension, that further explanation of western strategy is unnecessary, that measured, ad hoc military strikes are sufficient to contain the threats posed by Saddam to his neighbours (through invasion or the accumulation of weapons of mass destruction) and to his own citizens. This problem with this line of reasoning is that it condemns the allies to a pace and intensity of action determined by the level of provocation offered by Saddam. This is doubly true at a time when the leadership of the western world is in transition. Saddam is watching intently for any sign of diminished resolve on the part of the incoming US president; the logic of force almost demands that he step up the pace.

Searching reappraisal

Mr Bill Clinton will have to conduct a searching reappraisal of US Gulf policy. First, he has no alternative to continuing to seek full Iraqi compliance with the Gulf ceasefire. Second, he must build on the existing effort to protect the Kurds and Shias, whose repression is acknowledged as another source of regional instability, by warning Saddam that western air power will be used against attempts to interfere with international relief supplies. Third, he should muster a broader international force to defend Kuwait's borders, which remain alarmingly vulnerable to Iraqi incursions.

Fourth, and most important, he should attempt to elaborate a political strategy aimed not at directly toppling the Iraqi leader but at encouraging Iraqis to do so. Alongside the stick of military action, he should hold out the carrot of US co-operation provided Iraq adopts a regime that respects the will of the international community and the dignity and well-being of its own citizens. In place of the unmitigated despair Iraqis are experiencing today, he should offer the conditional hope of a lifting of sanctions. By clearly enunciating such a prospect, he may just make it possible.

How to target inflation

JUDGED BY what the chancellor said over the weekend, lower interest rates are not to be expected in the near future. The justification for such caution at a time of the barest whispers of recovery was the need to keep underlying retail price inflation within the target range of 1-4 per cent established after sterling's exit from the exchange rate mechanism. Is this either the right goal or the best indicator for policy?

The case for making control over inflation the principal aim of monetary policy remains strong. This is not just because low inflation is desirable in itself. It is at least as much because of the costs of instability. Attempts to reverse inflation may create irreversible economic damage. For this reason, monetary policy must try to keep inflation as stable as possible, rather than permit the wild swings characteristic of the British stop-go cycle.

The problem is not with the ultimate aim, but rather with how its achievement is measured. Over-reliance on the annual change in the RPI suffers from several drawbacks. First, it shines its spotlight on what may turn out to be irrelevant economic history, although the effects of current monetary policy on future inflation ought to be the main concern. Second, pursuit of a target for the RPI is likely to prove economically destabilising, following devaluation. Third, a target for the RPI does not provide wage bargainers with a reference point as clear as the exchange rate.

Worrying expectations

What should matter to monetary policy is not past inflation, but expectations for the future. As it happens, these expectations are worrying. The Treasury pointed out in last week's Monthly Monetary Report that the gap between conventional and returns on long-linked gilts is not only 5 percentage points at the long end, but is also 0.2 percentage points up on the previous month. Investors doubt the government's integrity, a fact that helps to justify the chancellor's caution.

The RPI will also be affected by the devaluation, now 10 per cent since just before September 18. Many seem horrified that devaluation may be passed through into prices. They should not be. A

devaluation was needed to increase the incentive to produce tradable goods and services. It does so by raising their relative prices. But the most important relative price is that for labour, which must fall if a devaluation is to work.

Blip in inflation

If the government responds to the needed help in inflation following devaluation by tightening monetary policy further, it will destabilise the real economy. What monetary policy must avoid is a rise in earnings in response to the higher retail prices. Particularly in the aftermath of devaluation, the relevant indicators of inflation are pay and earnings, not the RPI.

Pay and earnings should in fact be a permanent target. The government - or, better still, an independent Bank of England - should take a leaf out of the Bundesbank's book, by stressing the link between its monetary policy and pay trends. In so doing, it would be targeting not merely one of many indicators of underlying inflation, but its principal determinant. It would also avoid policies that bring about largely cosmetic improvements in underlying inflation by squeezing profits. Above all, it would give pay-bargainers a clear reference point, something lost when sterling was devalued.

As it happens, the evidence on pay and earnings, like that on inflationary expectations, underlines the case for caution. An appropriate target for the annual increase in earnings might be 2.5 per cent. While pay settlements may be easing below 4 per cent, rising at an underlying annual rate of 5.4 per cent. Even though the rate has been declining in recent months, it is still not securely within the desired range.

The chancellor is right to be cautious, though somewhat lower interest rates may soon be justified. But he is not so obviously right in how he is targeting inflation. The country needs a clear link between changes in monetary policy and in pay, the principal determinant of underlying inflation. The RPI is not a sensible indicator, particularly after a devaluation. The chancellor should carry on fighting, but first he must choose the right targets.

International Business Machines, the world's largest computer manufacturer and a symbol of US technological prowess, is today expected to report the biggest annual loss in US corporate history.

Wall Street is forecasting total losses for 1992 to be about \$4.7bn, after taking into account pre-tax charges of \$11.4bn to pay for continuing cuts in the company's workforce and the consolidation of manufacturing operations.

It will be the second consecutive year that "Big Blue" has reported a loss and the US financial community has delivered a damning verdict on the company's performance. IBM's stock was yesterday trading at below \$50 a share, down from over \$100 as recently as July. Last week, the company's AAA credit rating was downgraded to AA minus by Standard & Poor's.

Today's results will add to the gloom surrounding IBM. But of even greater significance to investors in the company, its customers and its rivals and allies in the international information technology industry will be the company's fate over the next five years or so. Can IBM survive as the leading company in the world's information technology industry or is it doomed to a protracted decline?

Until recently, such a question would have seemed unthinkable. Few companies have had such power to set standards, influence trends and exert leadership in an industry as IBM has for the past 30 years. Now only one thing is certain. The company must change radically if it is to regain its strength and profitability. The corporate structure on which IBM was built is increasingly obsolete. The markets it has dominated have been reshaped by advances in semiconductor technology that have reduced sharply the cost of computers and the gross profit margins of computer manufacturers.

This trend has been under way for several years, but as IBM's chairman John Akers told US analysts before the turn of the year, the rate of change is accelerating. "Advances in technology are placing more function, more power and more memory in ever-smaller semiconductor chips, while proprietary technologies are declining in value as industry-standard building blocks become the norm."

Many computing tasks that once ran on mainframe computers - the large centralised systems which have traditionally been IBM's main product - can now be carried out on networks of smaller, less expensive machines. This has played to the strengths of a new generation of Silicon Valley competitors which have lower costs and more flexible production and which have responded more quickly to changing market demands. This is the primary cause of the current downturn at IBM. It has been exacerbated by weak global economic conditions which have depressed demand for its products.

Faced with a choice between a multi-million dollar investment in an IBM mainframe and less expensive computer networks, information systems managers within companies are increasingly choosing the latter option to sell mainframes.

"Today, information systems managers are afraid to expose themselves within an organisation by paying the high price of IBM mainframe computer power," says Mr John Jones Jr, an analyst at Salomon Brothers in San Francisco. His comment is a startling revision of the old adage that nobody was ever fired for buying IBM.

Mr Jones estimates that IBM's mainframe revenues declined by almost 15 per cent last year to \$8.3bn from \$10.9bn in 1991. Sales of related products - such as data storage systems and printers as well as software and services which, combined, represent about one-third of turnover - have also suffered. IBM was built to sell mainframes. It has the structure, the sales and support operations, the manufacturing and research and development goals, and the high overheads of a mainframe computer company. Yet mainframes seem unlikely to pro-

vide IBM with significant opportunities for growth.

IBM's dilemma is vividly illustrated by an analysis of the company's biggest market, Europe, carried out by OTR Pedder, a Brussels consultancy. It shows (see chart) that in 1974, when IBM was enjoying its greatest success, mainframes comprised almost 80 per cent of the hardware market by value. Today, the corresponding figure is only 20 per cent. From nothing in 1976, personal computers and workstations have grown to more than 60 per cent of the market by value.

The challenge facing IBM, therefore, is to make a transition from a company heavily dependent on high-margin mainframe sales to a smaller, more flexible organisation with a stronger presence in faster-growing areas of the computer market such as personal computers, workstations, networking systems, consumer products and computing services.

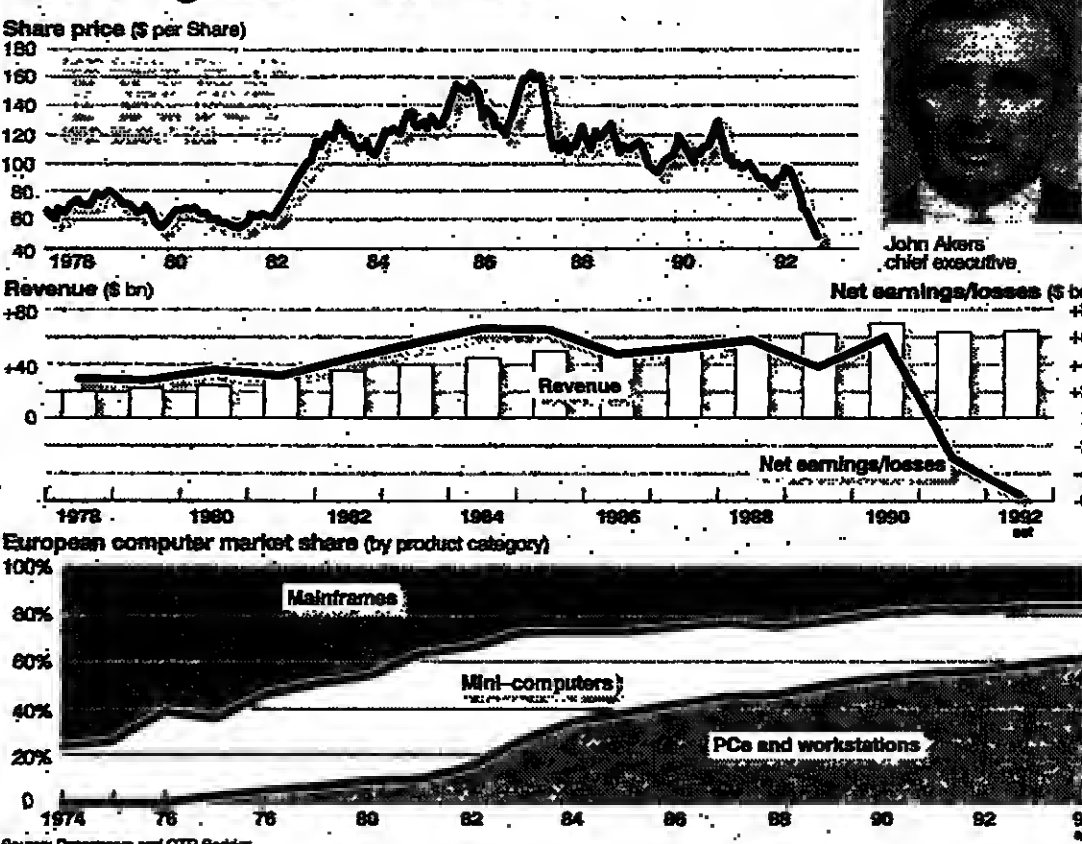
IBM has already taken steps to reduce costs. It has shed about 100,000 employees and reduced manufacturing capacity by 40 per cent since 1986. A further 25,000 jobs, or 8 per cent of the workforce, will go this year. Research and development spending, the seed corn of success in the computer business, will be cut from \$9bn to \$5bn this year.

These measures have made an impact. Revenue per employee, a measure of efficiency, is now \$23,000, more than its competitors Digital Equipment and Hewlett Packard. But most industry analysts believe further reorganisation is necessary. Mr Mark Stahlman, author of a soon-to-be published

A separation of powers

IBM is reducing its reliance on mainframe computers and creating autonomous business units in an attempt to reverse its decline, say Louise Kehoe and Alan Cane

IBM: A big case of the blues



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But most industry analysts believe further reorganisation is necessary. Mr Mark Stahlman, author of a soon-to-be published

study Why IBM Failed, remains critical: "For all its restructurings over the last few years, IBM has consistently chosen to nibble the bullet instead of bite it."

The company may now be ready to cut deep into previously sacrosanct territory. Mr Akers' pre-Christmas announcement that most of the 25,000 jobs to go this year will be in sectors supporting the mainframe business was regarded as a watershed by many within IBM. The cornerstone of Mr Akers' strategy, however, launched at the end of 1991, is to decentralise management and turn IBM from a monolith into a "federation of increasingly autonomous and independent business units" that are more flexible and able to compete more effectively in their own segments of the computer market.

Known as the "Baby Blues", the first of these fledglings have been the IBM PC Company, formed last September to take over all the company's personal computer operations; Adstar, formerly IBM's data storage division; and Penman Systems, IBM's high-speed printer operation. So far, the results seem promising. Last November the IBM PC Company achieved the highest monthly volume of PC shipments in IBM's history. It earned revenues of about \$9bn in 1992 - making it the world's largest personal computer company - and is expected to be profitable this year.

Adstar, the data storage business, has established itself as an important supplier in the industry. It is the leader in the rapidly growing market for high capacity 3.5-inch disc drives, which store computer data, and achieved an estimated \$300m in sales to outside customers in 1992. Penman Systems, with revenues of \$28m, is expected to show a small profit for last year.

There are critics, however, that IBM is not moving fast enough to give autonomy to other segments of the business. Mr Stahlman maintains, for example, that in workstations (high performance desktop computers) - the fastest growing segment of the computer hardware

business - IBM's product development and manufacturing operation is hampered by an inability to create its own strategic relationships in a highly competitive market.

Increased autonomy for IBM's operations is of particular importance in the service sector, an area that represents one of the company's best opportunities to return to profitability.

Sales of computing services - including consulting work, software, project and facilities management, and systems integration - are growing at about 25 per cent a year compared with less than 5 per cent for hardware.

IBM is expanding its services operations, establishing new business units worldwide and pricing its services aggressively to attract busi-

'For all its recent restructuring, the company has consistently chosen to nibble the bullet instead of bite it'

ness. Already, more than 40 per cent of IBM's revenues come from software and services. "In four or five years, IBM may no longer be a dominant force in hardware products but it will be a computer services powerhouse," says Mr John Logan, vice-president of the Aberdeen Group, a Boston consulting and market research group.

IBM's ambitions in computing services have produced a hostile response from competitors. Mr Keith Burgess, managing partner for Andersen Consulting in the UK says: "I find it a desperately cynical suggestion that any hardware manufacturer or software house can enter the upper echelons of the consulting business just like that... The skills of the line manager are not the skills to effect the step changes in performance that are the hallmark of the effective consultant."

Impartiality in recommending equipment is another potential problem. In the US, IBM has formed a subsidiary, Integrated Systems Solutions Company (ISSC), to create a buffer between its sales and consulting operations.

Since ISSC was formed in May, 1991, it has won some impressive contracts including a 10-year, \$3bn deal to manage McDonnell Douglas's IT operations.

Beyond restructuring its operations to address existing markets more effectively and shifting resources into the service sector, IBM is pursuing new business opportunities.

It is beginning to focus on consumer electronics where the convergence of computer, communications and consumer electronics technologies is widely expected to create the next "blockbuster" electronics product. Mr David Robinson, president of the consultancy CSC Index points to the potential of a device small enough to fit the pocket, cheap enough for the mass consumer market and powerful enough to transmit voice, data and images over communications networks.

IBM demonstrated a prototype of such a device at the Consumer Electronics Show in Las Vegas earlier this month. The 16-ounce "personal communicator" combines PC power, and electronic mail with cellular telephone and fax capability.

"Whether or not this technology becomes an actual product is not really the issue," says Jack Kuehler, IBM president. "The device is only the 'razor'. Our intent - and our core business - is to provide the 'blades' of on-line services, communications, visual content and information entry."

Technology alliances are another element of IBM's recovery strategy. Among the most significant is its partnership with Apple Computer. In a joint venture called Taligent the two companies are developing personal computer software that analysts believe may challenge Microsoft's dominance of the PC software market. "IBM handed the PC industry to Microsoft on a silver platter when it adopted Microsoft's DOS operating system in 1981. Now it is fighting to regain control," says Mr Jones of Salomon Brothers.

IBM is also expanding its sales of technology and components to other companies in the industry. In particular, its semiconductor division is seeking external sales rather than producing chips solely for internal consumption as it has done until recently. As the world's largest semiconductor manufacturer, it has the resources and the technology to become a significant competitor in this market.

Implementation of these strategies implies the emergence of a different corporate structure. But few within the company or the industry see an alternative to Mr Akers' plans. Most also agree that success will depend to a large extent on the degree of autonomy afforded the new businesses and operations.

"IBM's willingness to let go of the reins and allow subsidiary businesses to develop according to their own internal logic is still the great question facing the company," writes Mr Charles Ferguson and Mr Charles Morris, authors of Computer Wars: How the West Can Win in a Post-IBM World, to be published next month. They blame IBM's problems on its tendency to impose "mainframe style management" on businesses where it is inappropriate.

Recovery will also require patience. "IBM is like an aircraft carrier that takes five or 10 miles to turn around in an age of speedboats," says Regis McKenna, a respected computer industry consultant and author of Who's Afraid of Big Blue, an account of the success of Silicon Valley companies in their contest with IBM. "Companies such as Sun Microsystems and Apple Computer grew up in a competitive environment. IBM grew up in the 1950s, when it could control the market environment," he says.

"Now it has to learn to become interdependent with the market. It will take a long time, at least five years, to turn IBM around," Mr McKenna predicts.

Routinely royal rumpus

■ If the more nervous members of Britain's embattled royal family think that the whole world is agin'em, they might take comfort from the current royal rumpus in Malaysia.

Threatened with being stripped of some of their favourite privileges - such as a routine right to legal immunity - the country's nine sultans have not been getting a good press lately. The local media, which tends to toe the government line, has been regaling the public with all sorts of alleged royal misdeeds, ranging from tales of lavish parties, and prodigious gambling, to overspending on imported luxury limos and air-conditioned stables for their finest polo ponies. Indeed, one golf-mad sultan is alleged to have assaulted, and killed, his caddie in a fit of rage.

However, Malaysians have been getting most upset by the latest revelation of the sultans' high living - a \$7m boondoggle paid for out of the public purse. Its purpose? To decide on the location for a royal viewing of the moon - apparently something of a favourite pastime among the sultans.

It's alleged that the sultans used the meeting to get up to other less than courtly pranks - like locking a senior government official in a

keel and roundly abusing several others. Now that's Observer's kind of dirty tricks.

Propped-up

■ As Michael Heseltine prepares his White Paper to save the coal industry, the question arises of what to name the coal levy which is bound to feature in his plans. The electricity analysts at Robert Fleming Securities are proposing Coal Energy Central Intervention Levy, or CECIL, summoning the ghost of Lord Parkinson, the erstwhile energy secretary. Observer prefers FITS for Four in The Subsidies.

Cheesed off

■ It has long been an adman's axiom that if you can't find anything interesting to say about a client's product, mount a teaser campaign.

Even so, the latest efforts by Coca-Cola and Lowe Howard Bell, its British advertising agency, to drum up free publicity by signs of unusual desperation. Summoned yesterday to a "major mystery announcement" at St Martin's Theatre in London, some of the long-running woodhunk "The Mousetrap", hacks were treated to a tedious presentation by a top Coke executive which included a man dressed as Kaiser Bill and

OBSERVER



a small inflatable zeppelin. These, it finally turned out, were the improbable themes of a UK commercial for Tab Clear, a new colourless diet cola. No figures were available for sales targets, the ad budget or even Coca-Cola's UK sales last year.

But as it happens, the same product was announced a month ago in the US, where Tab's once-commanding share of the diet cola market has shrunk to less than one per cent, and followed the launch of a similar soft drink by arch-rival Pepsi. Even as self-important a company as Coke should realise that if a

secret is really worth revealing, it will be faxed around the world in a matter of hours. If it wants to attract media attention, it had better invent a better mousetrap next time.

Bank bying

■ One of the big unknowns of early 1993 is how Barclays Bank will address the continuing institutional pressure to split the role of chairman and chief executive. There is even talk of Barclays looking as far afield as the US for a new CEO.

In the meantime one man to watch is 46-year-old information technology supremo Joseph De Feo, who has only been with the bank for three years. Big banks have to get their operating costs down if they are to survive, and De Feo is the man in the hot seat at Barclays.

He has a lot in common with Gene Lockhart, Midland's ex-technical wizz. Both are straight-talking Americans who have made their reputations on Wall Street rather than in UK branch banking. Pride of place in De Feo's office goes to a huge Louisville Slugger baseball bat and he is not afraid to describe Barclays property lending binge as "dumb". Unlike Lockhart, who was promoted to the Midland board within a year of joining, De Feo has not yet made it into Barclays' inner sanctum. He's also said to

earn rather less than the £725,844 Lockhart commanded at the peak of his popularity.

However, in much the same way that Lockhart's future was tied closely to that of his boss, Sir Kit McMahon, De Feo's high flying career also depends on the star of current Barclays' chairman Andrew Buxton remaining in the ascendancy.

Blinkered

■ The audience at the conference in London yesterday on how to compete for £1.5bn of government services received the usual bulky pack containing the main speeches, names of participants and arrangements for the day. Participants hoping to learn more from William Waldegrave's speech on "The government's vision", however, were surprised to find only a blank page.

Prime minister John Major is known to be worried about his lack of the "vision-thing", but that's ridiculous.

Shrinks' links?

■ Can there be a connection between the first three topics scheduled for learned discussion at the British Psychological Society's conference in April? They are Male sexuality, Memory, and MP's' workload, stress and family life.

Funds to help lira's return to ERM 'as soon as possible', say officials EC approves Italian loan deal

By Lionel Barber in Brussels

AN Ecu8bn (\$6.5bn) balance of payments loan to bolster Italy's efforts to control its huge budget deficit and overhaul its economy was approved yesterday by European Community finance ministers.

The loan, which is conditional on periodic EC reviews of the budgetary programme, imposes an external discipline which the government of Mr Giuliano Amato views as vital to winning political support at home.

Italy asked for the loan last October, partly to offset the loss of reserves used to support the lira during the September crisis

inside the European exchange rate mechanism. Greece and Italy have received similar loans, but this is believed to be the largest medium-term balance of payments loan for which the EC has used its own guarantees to raise money on the capital markets.

According to the agreement reached yesterday in Brussels, Italy will be paid the loan in four tranches of Ecu2bn, two to be paid this year no earlier than February 1 and July 31 respectively; the last two will be paid in 1994 and 1995.

Mr Henning Christophersen, EC economics commissioner, outlined four conditions.

● The ratio of Italy's debt to

GDP will peak in 1994 to 112% per cent and will then begin to fall.

● Italy will take further fiscal steps if the government's borrowing requirements increase.

● The government will pursue reforms in health, pensions, the civil service and local finance.

● Disbursement of the loan will be on "performance not dates", according to Mr Christophersen.

Before September 1994, the Italian government, working with the EC Commission, will reassess budget targets for 1995.

Italian officials said the loan should help pave the way for the re-entry of the lira into the ERM "as soon as possible", as part of

the central bank's efforts to replenish its reserves. But re-entry must be at a "sustainable parity" which would prove lasting, according to Mr Piero Barucci, Italy's Treasury minister.

Mr Christophersen paid tribute to the Amato government's "courageous measures" to reform the economy, but said it was his impression that Rome favoured a step by step approach to the ERM. "It is a little too early to define a realistic exchange rate (for the lira)," Mr Horst Köhler, state secretary in the German ministry of finance, said ministers were looking forward to seeing the lira return to the ERM, but "on a solid basis".

Clinton says sound economy is key to US foreign policy

By Jurek Martin in Washington

MR BILL CLINTON, who is to be sworn in as president tomorrow, yesterday promised both continuity and change in his administration's conduct of foreign policy.

In a speech to diplomats at Georgetown University, his alma mater, he said he would build on the successes of his predecessors "in specific areas". He cited the Middle East peace process, nuclear arms control and proliferation, the humanitarian operation in Somalia, the support for reform in the former Soviet Union and the creation of new and expanding markets around the world.

"Yet, the world has changed in fundamental ways and we must change with it," he went on. "We need to clearly state how we plan in the US to adapt our nation's foreign policy goals and institutions to this new era."

Mr Clinton said his foreign pol-

icy would be based on three pillars.

● The first was to make US economic security "a primary goal" of foreign policy. "We cannot sustain an active engagement abroad without a sound economy at home," he said. Essential to this was a system of global commerce "rooted in principles of openness, fairness and reciprocity".

● US armed forces would be restructured to meet new and continuing security threats. Prudent cuts in defence spending were necessary, but that did not mean a lessening of US resolve, he said. "When necessary we will not shrink from using force when all appropriate diplomatic measures have been exhausted."

● The US would encourage the spread of democratic values worldwide. "Democracies do not wage war against one another. They make better partners in trade and diplomacy. And,

despite their inherent problems, they offer the best guarantee for the protection of human rights."

Specifically, Mr Clinton promised to work through the United Nations and other international institutions to resolve contentious disputes.

"America cannot and should not bear the world's burdens alone," he said, "but the Gulf war and the humanitarian relief operation in Somalia demonstrate what is best about the UN."

Apart from the new obligatory warning to Iraq, his speech was essentially another of the inaugural rites of passage and was not intended to break new ground.

Nevertheless his insistence that prudent cuts in defence spending were achievable serves as a reminder both to his domestic defence establishment, which is resisting them, and to US allies, from Japan to Nato, that this is one campaign promise he intends to keep.

Bank losses blamed on government policy

By Robert Peston, Banking Editor, in London

MISTAKES in the UK government's economic policy in the 1980s were a significant cause of the huge losses now being suffered by the country's banks, Mr Robin Leigh-Pemberton, governor of the Bank of England, said last night.

His remarks come at a time when relations between the banks and the government are strained. He did not address the Treasury's allegation that banks are behaving insensitively in their dealings with financially stretched small businesses.

But he expressly denied a claim being investigated by the Treasury that lending margins have widened significantly.

Mr Leigh-Pemberton, who is due to retire in June, said poor credit assessment by banks was also a factor in causing the loan losses. But he absolved the Bank's supervision department of any blame. "Supervisors... cannot and should not second guess the management of individual institutions," he said.

The main role of the supervision department was to prevent damage to the financial system. "The UK banking industry is well placed to absorb the pressures of the longest and deepest recession in many decades."

UK banks have suffered billions of pounds of losses on loans made in the mid-1980s. Many of the bad loans were to property companies or were backed by property collateral.

Mr Leigh-Pemberton said "it was not surprising that banks sought to increase the volume of their lending (in the 1980s)... it may well be that banks, lulled by the strength and the persistence of the recovery, became less sensitive to cyclical risks."

He added: "Many financial arrangements that had seemed reasonable in the heady days of the 1980s, reasonable even against normal expectations of cyclical behaviour, were fatally undermined by the length and depth of the recession."

He said the recession would not have been so deep if the government had not allowed the growth rate immediately before to be excessive. "The lesson for policymakers is that we can never afford to take risks with stability... we need, above all, a stable monetary environment, in which policy is geared to the achievement of price stability."

Mr Leigh-Pemberton did not argue that banks were blameless for their loan losses. He identified three lessons for them:

● "Do they really pay sufficient attention to the lessons of history - for example the property crisis of the early 1970s?"

● "Did they really monitor the credit criteria which had served them well in the past?"

● "Were the incentives given to loan officers really appropriate, or did they encourage new business at the expense of sound business?"

He lectured the banks on the need to attach the highest priority to the "control and pricing of risk".

Mr Leigh-Pemberton was talking to the Chartered Institute of Bankers in Scotland.

Called to account, Page 10

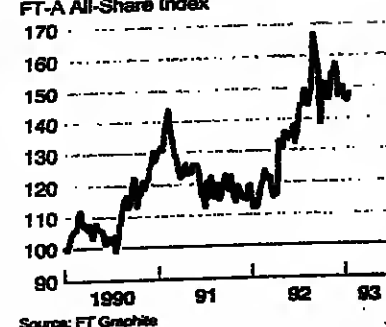
THE LEX COLUMN

Margins of error

FT-SE Index: 2763.1 (-2.0)

Water companies

FT-A Water Sector relative to the FT-A All-Share Index



duction - although Allied has already made an independent start with the closure of its Romford brewery. With-out greater efficiency, Carlsberg-Tetley can hardly expect to take share away from the likes of Bass, at least in the off-trade.

That will take time. The initial impact on Allied's earnings may be small. A strong third player could eventually hurt Courage which is still wrestling with a hotch-pot of brands following its deal with Grand Metropolitan. More intriguing will be the effect on Whitbread and Scott & Newcastle. The former has suffered from the recession in the south-east but has a new marketing-oriented chairman in Sir Michael Angus. The latter boasts efficiency and strong brands, but lacks critical mass and broad distribution. If Carlsberg-Tetley is right, these are both prerequisites of success.

Allied-Lyons

Now that Allied-Lyons' joint venture with Carlsberg is finally up and running, it is worth pausing to consider the implications for the beer market as a whole. Carlsberg-Tetley is the industry's third force after Bass and Courage. With this critical mass comes a relatively good fit. Allied is strong in the on-trade with strength in the Midlands and north; Carlsberg is strong in off-trade in London and the south-east. That should help raise market share. But how quickly, and apart from the long-suffering regional brewers, at whose expense?

Much depends on the rationalisation that must now follow. Closure of seven depots with a loss of up to 100 jobs can hardly be the end of the story. There must be more cost savings both in marketing and in pro-

Sterling bonds

The government should not take too much heart from the recent slew of sterling Eurobond issues. Yesterday's issue from PowerGen brings to £1.5bn the amount raised so far this year. But the range of borrowers and maturities suggests pockets of demand for sterling bonds rather than the wave of international buying required to help fund the public sector borrowing requirement. There has been overseas interest. But with sterling hovering around DM2.50, the potential for currency gain looks hardly enough to tempt big money.

The surprise is that more companies have not moved to lock into long-term rates before the government starts

borrowing in earnest this spring. While short rates are low most are evidently satisfied with floating rate bank debt. Moving to longer maturities involves higher interest payments. Even so, companies with a natural requirement for long-term funding - utilities among them - may yet regret not raising 10-year money at less than 9 per cent. The danger is not so much that the government will absorb all available institutional funds - life companies have an appetite for corporate bonds which yield a little more than gilts. Overseas investors will be needed to fund the PSBR. They may demand higher yields or a lower exchange rate before buying more sterling bonds. Any borrowers hanging on for lower interest rates are running something of a risk.

Water companies

The water companies' response to Ofwat on how the 1994 regulatory review should be conducted unsettled the market. Recent performance of the sector suggests investors are looking for reasons to switch to more cyclical stocks. But the document is little more than a gentle reminder that the industry's price limits in the second half of the decade are still undecided. Like other recent public exchanges with Ian Byatt, the tone is gently menacing compared with the bluster between other utilities and regulators.

It is hardly surprising the industry would prefer its capital base measured on the complex basis set by government at privatisation. If Mr Byatt opts to take market capitalisation instead, as he is minded to do, the companies' current rate of return on capital would look embarrassingly high - perhaps 11 per cent. Under the original government formula the rate of return would look more modest. The industry is right to point out the flaw in valuing on the basis of market capitalisation. That figure itself would adjust quickly to changes in expectation of what the regulator would allow.

The industry is equally right that huge capital investment has to be financed. Mr Byatt may be tempted, for example, to reduce the companies' rate of return by restricting profits growth while they press ahead with capital investment. That would mean sharply higher gearing. Mr Byatt would doubtless argue that his presence would reassure potential lenders. Given the short track record of the privatised utilities, banks and bond market investors may be less certain.

Bonn coalition partners warn of cuts in social spending

By Quentin Peel in Bonn

THE SLOWDOWN in the German economy will mean an "inevitable" increase in the government's net borrowing requirement, as well as drastic savings through cuts in tax allowances and reduced social spending, members of the ruling coalition warned yesterday.

They hope, in talks today, to finalise plans for a substantial savings package, as part of the wider negotiations for a "solidarity pact" to finance German unification.

The package is expected to include the introduction of strict means tests to limit social payments, such as children's allowances, to the poorest, and a possible halving in the tax benefits available for home-buyers.

It will also attempt to limit the payment of unemployment benefit, to ensure that the dole does not exceed wages available for those still in work.

The possibility of substantial cuts in social payments has aroused the anger of the opposition Social Democrats (SPD). If the package is rejected by the SPD, the government will still press ahead and attempt to reach



Otto Lambsdorff: tax shortfall

broad agreement with the trade unions and the governments of the 16 federal Länder, according to leaders of the coalition.

Both Mr Otto Lambsdorff, leader of the Free Democrats, the minority party in the coalition, and Mr Theo Waigel, the finance minister and leader of the Christian Social Union, sister party of Chancellor Helmut Kohl's Christian Democrats, took a hard line on the negotiations yesterday.

Mr Lambsdorff said there was a forecast shortfall in tax revenues for the 1993 budget of DM5bn (\$3.1bn) and an increased subsidy of a further DM5bn needed for the Federal Labour Office - which pays unemployment benefit - as a result of the economic downturn.

A further DM1.5bn had been promised to Russia, partly for the accelerated withdrawal of troops from eastern Germany. DM1.5bn for the reintroduction of investment allowances in east Germany and DM4bn as direct federal subsidies for the eastern Länder.

That would make a total shortfall of some DM17bn, and Mr Lambsdorff said the coalition partners "still have to find another DM2bn or DM3bn".

Mr Waigel said in Munich that social payments, including allowances for children and new infants, would be subjected to stricter means testing, as one way of cutting the budget burden in a socially balanced way - to meet the demands of the SPD. However, both he and Mr Lambsdorff said the coalition would press ahead with the savings package, even if the SPD did not agree.

Brussels cuts EC growth forecast

Continued from Page 1

unwarranted. "Personally I believe the worst is over," he said, echoing similar statements last week by EC central bankers.

Irish officials said they believed the punt had "weathered the ERM crisis", and were visibly pleased that EC finance ministers had agreed to Dublin's request for a statement aimed at cowering speculators. But ministers were guarded about an early return of the Italian lira to the ERM, despite agreement on an Ecu8bn (\$6.5bn) medium-term balance of payments loan.

At yesterday's meeting - the first high-level macroeconomic discussion at ministerial level under the Danish presidency of the EC - the mood of solidarity was dampened by the gloomy

growth forecasts produced by the European Commission.

According to the Commission's projections, growth in the EC this year will fall from 1.1 per cent in 1992 to 0.9 per cent. This is lower than last month's Organisation for Economic Co-operation and Development outlook which forecast 1.2 per cent for the EC in 1993, and less than the Commission's earlier guarded hopes of growth between 1 and 1.5 per cent.

The Commission said it expected Germany to remain flat, with France and Spain each reaching a meagre 1 per cent. But the Commission said it expected 1.3 per cent growth in Britain in 1993 - marginally above the UK Treasury forecast of 1 per cent.

Mr Christophersen said the improvement was a result of a

gain in the UK's competitive position following sterling's depreciation after its exit from the ERM last September, as well as the British government's success in fighting inflation.

Several EC ministers yesterday expressed polite hopes of an imminent cut in German interest rates. Mr Christophersen - along with Mr Thor Pedersen, Danish economics minister - expressed confidence that plans for a wages pact between unions and employers in Germany coupled with proposals for a tax rise in 1995 should pave the way for an early cut in Bundesbank interest rates.

Ministers also agreed to accelerate plans for an EC growth package, including a new European Investment Bank lending facility to finance roads and telecommunications.

World Weather	°C	°F
Boulogne	5	41
Buenos Aires	12	54
Calcutta	24	75
Cairo	18	64
Cape Town	12	54
Chicago	12	54
Cologne	12	54
Copenhagen	12	54
Dallas	12	54
Dublin	12	54
Edinburgh	12	54
Faro	12	54
Florence	12	54

World Weather	°C	°F
Frankfurt	12	54
Glasgow	12	54
Helsinki	12	54
Hong Kong	24	75
Imbabura	12	54
London	12	54
Los Angeles	12	54
Luxembourg	12	54
Madrid	12	54

World Weather	°C	°F
Manila	24	75
Mexico City	24	75
Moscow	12	54
Mumbai	24	75
Nairobi	12	54
Paris	12	54
Rangoon	24	75
Rio de Janeiro	24	75
Rome	12	54
Sao Paulo	24	75
Seoul	12	54
Singapore	24	75
Stockholm	12	54
Taipei	24	75
Tel Aviv	24	75
Tokyo	12	54
Toronto	12	54
Valencia	12	54
Warsaw	12	54
Washington	12	54
Zurich	12	54

World Weather	°C	°F
Yamalo	12	54
Yokohama	12	54
Yongin	12	54
Yongin	12	54
Yongin	12	54
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19

Fair pay
intrum justitia
THE EUROPEAN ENTRY 7893-84
WHITBREAD ROAD THE WORLD TRADE

INSIDE

Philips lights up in North America

Philips, the Dutch electronics group, struck operating profit in North America with its lighting division last year for the first time since 1984. Mr Einar Klostner, president of Philips Lighting, said the company had "caught up" with the competition in new lighting products after falling behind at the beginning of the 1980s. But he predicted 1993 would prove a "very tough" year for lighting. Page 20

Yves Saint Laurent speculation

Trading in shares in Yves Saint Laurent, the fashion and cosmetics company, and Elf-Sanofi might be selling a significant share stake to Elf-Sanofi, the pharmaceutical and beauty products arm of the state-owned Elf-Aquitaine oil group. Page 20

Floating pound buoys Photo-Me

Sterling's devaluation helped Photo-Me International, the world's largest photo-booth manufacturer and operator, lift pre-tax profits by 21 per cent to £10.5m (£16m) in the half year to end-October. Mr David Miller (left), chief executive, said the best measure of underlying performance was the 12 per cent growth in operating profits. Page 24

Qantas to axe 1,835 jobs

Qantas, the government-run Australian airline, plans to make 9 per cent of its workforce redundant over the next two years to help cut costs by A\$158m (\$109m) a year. Page 22

Lean harvest from soft sell

Most British farmers are far more interested in better production than in trying to market their produce, hence the growing penetration by EC competitors of the British food sector. Fundamental marketing deficiencies of UK agriculture are the lack of organisations big enough to apply real leverage against the retail giants and a piecemeal approach to promotion and quality assurance. Page 26

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Bellweather Explor	25	Peel	25
Brent Walker	25	Phillips	25
British Airways	19	Photo-Me Int'l	22
British Thomson	25	Primetia	21
Brother Industries	22	Real Time Control	19
Carlberg-Tetley	24	Repsol	25
Carlton Television	24	Revaas	25
Cascade Group	22	Rhone-Poulenc	22
Citic	22	Saga	22
Concord Camera	25	Saton Healthcare	14
Crown Financial	25	Shandwick	14
Daiwa Bank	25	Soundtracs	25
Dallas	19	Tay Homes	25
Eagle Star	25	Unilever	25
Elf-Sanofi	25	Unilever Atlantic	19
Forster & Brewling	22	Wal-Mart	21
Fujitsu	22	Watts Balke Beame	24
Geatner	22	Xerox	21
Glaxo	22	YSL	20

FRANKFURT (DM)				PARIS (FFr)			
Alcatel	2057	+ 72	BOC	1080	+ 33		
Alcatel AG	376	+ 58	Canal	1035	+ 15		
Alcatel	255.8	+ 92	Carrefour	422	+ 15		
Alcatel	348	+ 14	Garnant Soc N	155	+ 102		
Alcatel	330	+ 13	Vallourec	155	+ 102		
Alcatel	590	- 15	Peel	586	- 29		
Alcatel	49 1/4	+ 1 1/2	Nippon Fed	314	+ 28		
Alcatel	29 1/2	+ 1 1/2	Nippon Fed	288	+ 18		
Alcatel	29 1/2	+ 1 1/2	Sanyo Densetsu	450	+ 28		
Alcatel	6 1/2	+ 10 1/2	Peel	581	- 44		
Alcatel	54 1/2	- 1 1/2	Peel	375	- 25		
Alcatel			Peel	243	- 15		

New York prices at 12:30.

London (Pence)

Alcatel	10 + 1 1/2	Peel	18 + 2
Alcatel	25 + 1 1/2	Peel	42 + 3
Alcatel	206 + 12	Peel	82 + 5
Alcatel	206 + 12	Peel	37 + 3
Alcatel	206 + 12	Peel	136 + 14
Alcatel	206 + 12	Peel	58 - 4
Alcatel	206 + 12	Peel	30 - 4
Alcatel	206 + 12	Peel	31 - 4
Alcatel	206 + 12	Peel	76 - 15
Alcatel	206 + 12	Peel	151 - 17

Unilever and BSN in iced snack joint venture

By Guy de Jonquieres, Consumer Industries Editor

UNILEVER, the Anglo-Dutch food and consumer products group, and BSN, France's largest food company, have formed a joint venture to develop and market worldwide a range of new products combining ice cream and yoghurt.

Unilever is the world's largest maker of ice cream, with sales last year of about £1.8bn (\$2.5m) in 30 countries, while BSN is the biggest producer of yoghurt, with sales of almost FF24bn (\$4.4bn) last year.

The venture appears intended to exploit growing demand among health-conscious consumers for new types of frozen desserts and snacks. Demand is strongest in the US, where sales of products such as frozen yoghurt have recently increased rapidly. However, the joint venture will focus initially on France and Spain, where it plans to launch products soon.

Sales will be expanded to other countries later. The two companies said the worldwide market for the venture's products, described as "combining the ideal properties of yoghurt and ice cream", could eventually amount to hundreds of millions of litres.

Marketing of the products is expected to rely heavily on the companies' leading brand names. Unilever's ice cream brands include Motta in France, Frigo in Spain and Wall's in Britain, while BSN's main international yoghurt brand is Danone.

No figure was given for the initial investment in the joint venture, which will be equally owned and use existing facilities provided by the two partners. Based in Paris, it will be headed by a steering committee of three managers from each company under a rotating chairmanship, while Unilever will provide operational management.

Mr John Campbell, food industry analyst with County NatWest, said the venture would probably enjoy reasonable growth potential, though prospects in Europe were uncertain because the market was still largely undeveloped there.

BSN has relied increasingly on alliances and partnerships to enter new markets, such as Italy, China and Japan. However, Unilever has traditionally preferred to have full control of its businesses. However, the Anglo-Dutch group recently formed a joint venture with PepsiCo, the US soft drinks and snacks group, to sell canned iced tea.

Spanish energy group announces \$500m share issue

By Tom Burns in Madrid

REPSOL, the Spanish state-controlled energy group, is to raise at least \$300m through an international issue of shares that will reduce the government's ownership of the company to less than 50 per cent.

The share placing, which is likely to go ahead within three months, will be the first of several disposals of state shareholdings scheduled for this year as the government seeks to reduce its budget deficit by asset sales.

Repsol said yesterday that it was advising in the design of the share offer and that it was managers would be decided shortly. The placing, aimed at institutional investors, is likely to be marketed aggressively in the US, Europe - notably in the UK and Japan.

In a circular last month inviting bids to lead the placement syndicate, Repsol indicated it was seeking to raise more than \$500m. At current market prices - Repsol is trading at \$24 a share, which is close to its historic high - the conglomerate would be putting some 7 per cent of itself on the market and the state-held equity in Repsol would fall from 54.5 per cent to 47.5 per cent.

It reported virtually flat profits in the first half of last year, a six-month result that was considered "positive" when the weak trading of some of its larger rivals in the oil industry was taken into account.

Virgin may take US action as BA apology 'falls short'

By Paul Betts, Aerospace Correspondent

MR Richard Branson will decide next week whether his Virgin Atlantic Airways will take any further legal action in the US courts against British Airways.

Virgin said yesterday it had received "an extremely brief confidential note" from BA which fell short of the "act of good faith" it was seeking from its larger UK rival to show it had changed its attitude.

Mr Branson, who yesterday met Mr John MacGregor, the UK transport secretary, is also seeking a commitment from the government to fair competition in the UK airline industry after the victory in the High Court last week in his "dirty tricks" libel battle against BA.

The ball was now in BA's court, a Virgin official said yesterday, explaining that Mr Branson would review next week all options about action, if any, he intended to take. Virgin's next move would depend on the response of BA. Its board is understood to have met to analyse the impact of the Virgin affair which is now under board investigation. A further meeting is expected this week.

Non-executive directors led by

Charles Leadbeater on consolidation in the Japanese car industry
Co-drivers needed on rocky road

A sharp downturn in the Japanese car market over the past two years is forcing manufacturers there to contemplate far-reaching changes of strategy, which could lead to a consolidation of the industry.

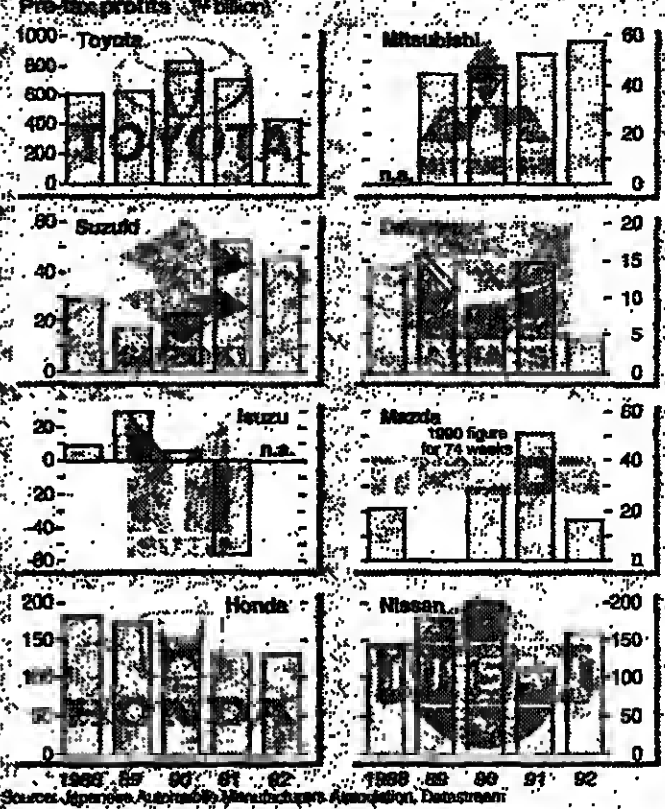
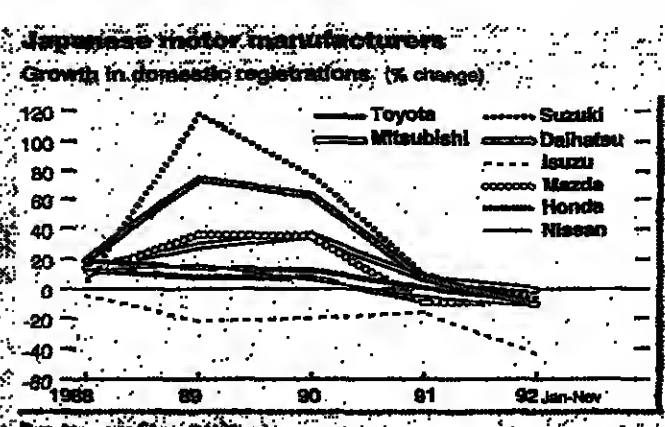
Japanese car drivers have been the main beneficiaries of fierce competition within an industry of 11 producers. The competition has forced Japanese manufacturers to levels of efficiency and quality which are the envy of their competitors.

That may be about to change. Japanese manufacturers are increasingly looking to alliances to help reduce competition and cut costs.

Last year Honda and Isuzu announced an agreement to sell each other's vehicles, after Isuzu had said it would withdraw from passenger car production.

Last week Nissan and Mazda confirmed they were discussing a plan to swap vehicles to cut development costs. Nissan is likely to suspend production of some light commercial vehicles and instead sell trucks supplied by Mazda. Mazda will streamline its range of vans by taking supplies from Nissan.

Toyota and Nissan, the industry's two largest producers, are considering jointly developing an electric car, which could have long-term implications for collaboration over product development.



Ford are yet to produce a deal but the company is understood to have exploratory talks with Citroën of France.

Nissan, which made a pre-tax loss of ¥14.2bn in the six months to the end of last September, has been losing market share largely because its ageing model range is over extended.

Nissan sells 57 per cent fewer vehicles than Toyota, spread over 29 basic models, compared with Toyota's 26. The Cedric model comes with thousands of variations; the Laurel has 86 different steering wheels and 173 types of steering column. To maintain this range Nissan needs a huge and costly array of parts and suppliers.

All producers have slowly begun to cut costs.

Investment is being reined in and they have announced plans to standardise and reduce the numbers of parts they use by up to 45 per cent.

Agreements to share large components are spreading: Mazda is taking diesel engines from Isuzu. Wage costs are being restrained, partly by the spread of single shift working at many plants. As yet, however, no company has dared cut into the large white-collar overheads in offices and showrooms.

However this cost cutting is unlikely to be enough to sustain profitability, given the bruising competition in a declining market. The obvious companion step is to cut the pace of competition.

Mr Yoshifumi Tsuji, Nissan president, says the agreement with Mazda will cut development costs but in the long run it could lead the two companies to reduce the number of competing models on offer.

These are the first responses to the downturn in domestic demand since 1990, which many industry executives believe could mark the start of a period of much slower growth in a maturing market.

The slowdown comes as most manufacturers are starting to pay for the heavy investment of the late 1980s. Japanese car producers have traditionally relied upon expanding sales rather than reducing costs to raise profits.

Mr Jonathan Dobson, an analyst at Jardine Fleming securities, estimates the Japanese market needs to grow by about 7 per cent for the producers to avoid their operating profit margins being eroded.

Few believe the market will sustain that growth.

The industry is dividing into two groups: those under pressure and those under heavy pressure.

A select few appear to be weathering the downturn in reasonable shape. Toyota, the leading producer with about 41 per cent of the domestic market, has large cash reserves and a reputation for low-cost volume production.

Mitsubishi Motors has increased its sales, partly thanks to its extensive but tailored product range which includes leisure vehicles such as the Pajero. Suzuki sold more cars last year than the year before because it concentrated on the mini-car segment of the market.

The others - Daihatsu, Isuzu, Mazda, Honda and Nissan - are struggling. Many in the industry believe that Daihatsu, the mini-car maker, which has already retreated from the US market, may be incorporated into its parent Toyota.

The next logical step would be to overturn the conventional wisdom of the late 1980s, which was that product cycles would inevitably shorten as producers rushed out new models to maintain market share. Stretching the life of a model could save huge sums in research and development costs.

However until the market leader Toyota signals that it may take such a step, the other companies will be loath to go it alone for fear that their market share and profits will fall sharply.

Nissan and Mazda are facing acute difficulties. In the late 1980s Mazda seemed to represent the model new carmaker, with an impressive array of redesigned products such as the popular MX-5 sports car. It boasts 4,000 permutations of car. Now it is paying for its image.

Sumitomo Bank, which has parachuted a senior executive on to the company's board is breathing

down Mazda's neck. The carmaker's pre-tax profits in the first half of the year to the end of March fell 73 per cent to ¥3bn (\$24.2m). The depreciation charge for investments such as its Hofu production plant will rise 30 per cent this year to ¥88bn. Its sluggish sales are spread across five sales channels which share few costs. Its overseas operations are less developed than the other carmakers.

Mazda, which is a quarter owned by Ford, the US manufacturer, has one of the smallest production operations in North America which leaves it badly placed to benefit from an upturn in the US market. It recently cancelled plans for a separate luxury car sales network in the US. It is also the only Japanese carmaker to lack a production presence in Europe. Long running talks with

Eagle Star close to settling BBL litigation

By Richard Lapper in London

EAGLE STAR, the general insurance subsidiary of BAT Industries, is understood to be close to settling its long-running litigation with Banque Bruxelles Lambert, the Belgian bank.

News of a possible settlement in the case, which concerns commercial mortgage indemnity policies on property loans worth £220m (\$341m), will breathe life into the company after last week's defeat in a legal battle with a Lloyd's syndicate.

Judge Diamond ruled in the Commercial Court last Thursday that Eagle Star must pay £40m in potential claims arising from a reinsurance policy purchased by syndicate 640 in 1973.

In the BBL case, which centres on a disputed valuation of six properties, it is believed that Eagle Star could pay around £100m to settle, although this amount could be reduced following reinsurance recoveries. BBL brought the case after Eagle Star failed to honour policies taken out on six loans in 1989.

The settlement move follows the adjournment of the case last Tuesday in the 11th week of the hearing. Eagle Star will seek to expand its case against the valuers of the six properties.

Losses on commercial and domestic mortgage indemnity policies have contributed to Eagle Star's recent trading difficulties. Pre-tax losses were £394m in 1991, and £266m in the first nine months of last year. BAT Industries pumped £450m into the company to boost its solvency.

Mr Michael Heath, Eagle Star executive director, said the Lloyd's ruling would have no "financial impact".

November 1992

BT

British Telecommunications plc

has restructured £2.2 billion nominal of its Unsecured Loan Stocks held by Her Majesty's Treasury and has redeemed £320 million nominal of these Stocks following a competitive auction conducted by

Her Majesty's Treasury

The undersigned acted as financial advisers to British Telecommunications plc in this transaction.

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INTERNATIONAL COMPANIES AND FINANCE

Trading in YSL halted amid stake sale speculation

By David Buchan in Paris

TRADING in the shares in Yves Saint Laurent, the fashion and cosmetics company, and Elf-Sanofi were suspended yesterday amid speculation that YSL might be selling a significant stake to Elf-Sanofi.

Elf-Sanofi, the pharmaceuticals and beauty products arm of the state-owned Elf-Aquitaine oil group, promised a statement and a press conference early this afternoon to explain the new development.

Officials at YSL were unavailable yesterday, but their president, Mr Pierre Bergé, has made no secret of his desire to sell up to 15 per cent of the company.

Mr Bergé's openness last autumn about his willingness to sell a significant stake to a "true partner" had led to some softening of the company's share price, and criticism from YSL minority investors.

However, in the past four weeks, YSL's shares have gained nearly a third, and yes-

terday's suspension came after a sizeable rise last Friday.

Several months ago, Elf-Sanofi was canvassed as a possible buyer of the shares jointly owned by Mr Saint Laurent and Mr Bergé, but was said to have been ruled out because it was unwilling to leave the company's two founders in management control.

Elf-Sanofi is essentially a pharmaceuticals company, but it has a perfume and beauty products business centred around its four marques of Roger & Gallet, Stendhal, Van Cleef & Arpels and Oscar de la Renta. The Elf-Aquitaine group is itself a possible candidate for privatisation if French conservatives win the March parliamentary election.

In the first nine months of last year, Elf-Sanofi recorded a 12.5 per cent rise in turnover to FF15.8bn (\$2.85bn), while YSL's predominantly luxury business has been much harder hit by the economic turnaround with profits falling to just FF2.6bn in the first half of last year on sales of FF1.39bn.

Custos slides SKr398m into red

By Christopher Brown-Humes in Stockholm

CUSTOS, the Swedish investment group, slid to a SKr398m (\$55m) loss after tax in 1992, a sharp reverse from the SKr159m profit recorded a year earlier.

The group, which is majority-owned by Volvo, the motor vehicle group, and Skanska, Sweden's largest construction company, blamed the loss on high interest rates, turmoil in the capital markets, and a downturn in the Swedish stock market. The group cut its dividend to SKr1 from SKr7.

Custos said income fell to SKr408m from SKr457m, while interest costs climbed to SKr694m, compared with SKr585m. An injection into a subsidiary amounted to a further SKr400m.

The group noted that the adjusted value of its share portfolio fell by 23 per cent to SKr5.76bn, compared with a fall of just 1 per cent for the Stockholm stock market as measured by the Affärsvärlden general index.

At January 15, the company calculated its own net worth at SKr74 per share, or a total of SKr3.52bn.

Volvo and Skanska launched a bid for full control of Custos last October in what many thought would be the first step in the dissolution of cross-shareholding links between the two groups.

The offer was later abandoned after it was rebuffed by big shareholders and share prices began to recover.

However, a joint bid for a minority stake in a smaller investment company, Protorp, did proceed successfully after the original terms were improved.

Skanska and Volvo said yesterday they now owned 99.6 per cent of Protorp's shares, including those held by Euro, Skanska's building materials affiliate. The offer was worth SKr200 per share, valuing the company at SKr22m.

Sweden faced with mixed economic signals

Christopher Brown-Humes reports on the aftermath of the flotation of the krona

A FEW weeks ago, Sweden's decision to float the krona seemed to thrust a ray of light into the gloom enveloping the country's corporate sector. Since then, the mood has been tempered by the realisation that 1993 is still going to be an awful year for the Swedish economy, and that even in 1994 recovery may be a very slow business.

The signals are nothing if not mixed. And the contrasting announcements recently from two of Sweden's leading industrial groups are a vivid illustration of this.

The message from SKF, the world's leading roller bearing manufacturer, was that worsening conditions in key European markets would reduce demand for its products in 1993, forcing a further 2,000 in staff cuts.

In contrast, SCA, Sweden's second largest forestry group, headed by Mr Sverker Martin-Loff, upgraded its 1992 results forecast, thanks to currency factors and the benefits of cost-cutting.

If nothing else, these announcements emphasise the schizophrenic that characterises corporate Sweden at present. For most of the big international groups, which dominate the country's business sector, exports and profits should rise quite sharply this year thanks to the benefits of a devaluation that has so far seen the Swedish krona fall by around 20 per cent.

However, because demand is likely to be weak in many European countries, and particularly in Germany, Sweden's largest export market, the benefits will not be as great as they were in 1992, the last time

Sweden devalued, when a strong international recovery was under way.

At the same time, a weaker currency will do nothing to alleviate the plight of the thousands of small and medium-sized businesses that depend on the domestic economy, which in 1993 is likely to be as depressed as it was last year.

Sweden is heading for its third consecutive year of negative GNP growth this year, with investment and private consumption set to fall further, and unemployment still heading upwards.

Thus 1993 will be a year when the performance of exporters such as the car, engineering and forestry companies, will stand out sharply from other sectors of business, like banking and construction.

Since devaluation, very few of Sweden's leading exporters are not competitive, because, in addition to the advantage of a weaker currency, they have also benefited from rationalisation, low wage increases, and cuts in employers' social security contributions. One estimate suggests that Swedish corporate competitiveness this year will improve by more than 15 per cent as a result.

For pharmaceutical companies like Astra and Kahl Pharmacia (part of Procordia), which were faring well even before the krona was floated, the devaluation provides an extra boost. For other groups, such as the car companies Volvo and Saab, the steel groups SSAB and Avesta Sheffield, and the forestry companies Stora, MoDo and SCA, it means a return to competitiveness and in many cases a return to profit after the diffi-



Sverker Martin-Loff upgraded results forecast of SCA

culties of the past two years, because they are all big net exporters from Sweden.

For a third category, such as SKF and the big white goods manufacturer Electrolux, the benefits are not so positive because they are not such big exporters from Sweden and demand in many key markets remains weak.

For a loss-making company like Volvo, prospects have been transformed by the combination of productivity improvements and currency movements. At its Torslanda car plant, it now takes 50 hours to produce a car compared with 75 hours last year. The company has estimated that a 13 per cent devaluation of the krona is worth some SKr2bn in the long term. In the pulp and paper sector, there has been a similar transformation. Both MoDo and Stora can expect to be more than SKr1bn (\$137m) a year

better off following the devaluation if the krona stays at its current level.

These and other export-oriented companies have a big weighting on the Stockholm stock exchange, which is why Swedish share prices have risen by nearly 30 per cent since the krona floated.

It also explains why Alfred Berg Fondkommission, the Stockholm-based securities house, calculated last month that total profits for the top 35 Swedish companies could return to 1991 levels of SKr36bn in 1993 before advancing further to SKr63bn in 1994, basing its forecast on a 15 per cent eventual devaluation and a rate of SKr7.50 to the dollar.

The figures would represent a strong recovery from the 1992 level of SKr7.6bn, although even the 1994 figure only takes the companies back to where they were in 1989.

By contrast, the outlook for the domestic economy is bleak, not least because of the crisis in the banking sector.

Many commentators expect credit losses in the banking system to be higher in 1993 than in 1992, and no-one will have been encouraged by last month's announcement from SE Banken, Sweden's largest commercial bank, that it might need support from the state. Such difficulties could tighten the credit squeeze on the corporate sector considerably.

Meanwhile, construction activity is set to fall further next year, prompting an increasing number of calls for major infrastructure investment programmes to help get revival under way.

The best hope for the country's domestically-orientated

companies is that interest rates will come down sharply in 1993. There has been some relaxation already, although the central bank is expected to keep a generally tight grip on monetary policy to hold down inflation.

The hope is that a combination of lower interest rates and higher exports will bring about discernible signs of recovery next year - in time to boost the re-election hopes of the coalition partners who form the minority government.

However, the longer term prospects for Sweden's recovery will depend on how quickly it can cut its rising budget deficit and reduce public expenditure as part of an overhaul that promotes an enterprise culture.

It will also depend on whether it has learned from the mistakes of the past. In public, at least, few industrialists were calling openly for a devaluation before the event, precisely because they feared the long-term consequences would be negative.

Mr Sten Westerberg, senior partner at Maizels Westerberg, says previous devaluations have proved wasted opportunities for Swedish industry, as eventual overheating and cost inflation have eroded the initial benefits.

The same mistakes will not necessarily be repeated this time, as inflation pressures are much lower in a depressed international business climate. But there are many who still fear that they will recur and that Sweden will once again find it is uncompetitive later in the decade.

Chicago seeks bigger share of forex market

By Laurie Morse in Chicago

THE Chicago Mercantile Exchange hopes to grab a bigger slice of the \$1,000bn per day global foreign exchange market with plans to offer futures and options contracts that resemble over-the-counter spot currency transactions.

The new contracts, known as "rolling spot" contracts, will be four times the size of the CME's existing foreign currency products, a feature that should make them more palatable to the institutional traders who dominate foreign exchange trading.

The exchange plans first to offer rolling spot futures and options based on sterling with a contract size of 250,000, and then extend the concept to five other currencies on which it

trades conventional futures.

The products have been submitted for regulatory review, and the CME hopes to launch them by June. The futures and options will expire quarterly and be quoted in terms identical to the interbank market.

Mr Jack Sandner, CME chairman, said: "The spot market place as it stands is needlessly cumbersome and inefficient. Each of these spot transactions and rolls exacts a tremendous toll on banks, in that they involve considerable transactional and operational expenses, as well as the potential for costly mistakes in actual payment flows. The Merc's clearing house will streamline this process by automatically adjusting for the roll, most likely in variation margin."

Philips' lighting division back in the black in North America

By Ronald van de Krol in Eindhoven

PHILIPS, the Dutch electronics group, said yesterday that its lighting division managed to make an operating profit in North America in 1992 for the first time since 1984.

Mr Einar Kloster, president of Philips Lighting, also said that the company had "caught up" with the competition in new lighting products such as ballast lamps after falling behind by about

two years at the beginning of the 1990s.

Mr Kloster declined to give further details of the lighting division's 1992 results ahead of the scheduled release of group results March 4. Philips has been involved in a reorganisation in the US after acquiring Westinghouse's light bulb factories in 1983.

He predicted that 1993 would prove to be a "very tough" year for lighting. Philips' lighting business put in a strong performance in 1992, resuming

its traditional role of "cash cow" after faltering briefly in 1990. In the first nine months of 1992, the division posted a 63 per cent increase in operating profit to F1602m (\$325m) which helped to compensate for part of the downturn in the group's key consumer electronics business.

Mr Kloster described the world lighting market as stable, with Philips, General Electric of the US and Osram, a subsidiary of Siemens of Germany, holding roughly equal shares of the

market for conventional light bulbs. Mr Kloster said Philips must use the "window" opened by its competitors' efforts to digest recent acquisitions to concentrate on becoming a low-cost producer. The Dutch company's aim is to equip its European factories to produce at least 200m light bulbs a year.

It has already announced plans to close its light bulb factory in Dijon, France, and redistribute this capacity among the group's five other European plants.

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169	418	1017	1048	1111	1192	1247	1372	1444	1728
384	898	1039	1071	1129	1219	1272	1385	1459	1765
398	912	1042	1074	1160	1227	1320	1397	1642	
401	917	1043	1094	1164	1228	1353	1403	1666	
416	927	1047	1108	1178	1246	1371	1429	1723	

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After 18th February, 1993 any unmatured Coupons relating to such Notes (whether or not attached thereto) shall become void and no payment shall be made in respect of and no talon shall be exchanged for such Coupons. Notes outstanding after 18th February, 1993 will aggregate to £5,975,000.

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January 19, 1993, London

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February 01, 1993 - March 01, 1993	4.06	40.62	406.17	
March 01, 1993 - April 01, 1993	4.35	43.54	435.39	
April 01, 1993 - May 01, 1993	4.49	44.94	449.44	
May 01, 1993 - June 01, 1993	3.60	36.04	360.43	
June 01, 1993 - July 01, 1993	3.83	38.31	383.05	

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Floating Rate Notes Due 1994

Notice is hereby given that the Rate of Interest for the Interest Period from 19th January, 1993 to 19th July, 1993 is 4.26% per annum. Interest payable on 19th July, 1993 will amount to ¥211,249 per ¥10,000,000 principal amount of the Notes.

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INTERNATIONAL COMPANIES AND FINANCE

Five-fold rise in net earnings for NationsBank

By Alan Friedman
in New York

NATIONSBANK, the large south-eastern US regional banking group formed in 1991 by the merger of C & S Sovran and NCNB, yesterday reported \$1.15bn of net earnings for the whole of 1992, more than five times the previous year's level.

The bank's earnings had been held back in 1991 by heavy merger-related restructuring charges and provisions for bad and doubtful debts.

In the fourth quarter of 1992, NationsBank said net income was \$234m, or 92 cents a share, even after a one-time \$50m pre-tax provision caused by closures and merger-related consolidations. In the same quarter of 1991, it suffered a loss of \$244m, or 1.08 a share.

NationsBank is the fourth-biggest bank in the US, with total assets of \$118bn and more than 1,700 offices in nine states and the District of Columbia.

Mr Hugh McColl, chairman and chief executive, yesterday described its first full year of operations as "extraordinarily successful" and said the bank was ahead of schedule, since

300 of some 400 planned merger consolidation projects had already been completed.

He noted that the bank's level of non-performing assets had declined by 29 per cent in 1992, to \$1.99bn. Bad debt provisions declined to \$1.45bn from \$1.8bn in 1991, while net write-offs fell to \$366m in 1992, from \$1.3bn the previous year.

Mr McColl said NationsBank was proceeding with expansion plans, including a deal with Dean Witter, the brokerage house partly-owned by Sears Roebuck, to form a joint venture retail securities company.

Total shareholders' equity rose by 20 per cent in 1992, to \$7.8bn. The bank's ratio of capital to assets under the Tier 1 regulatory measure used in the US stood at a healthy 7.54 per cent at year-end.

Net interest income improved by 6 per cent last year, to \$4.19bn, thanks to wider spreads being enjoyed by the entire US banking industry. Non-interest income increased by 10 per cent in 1992, to \$3.97bn.

On Wall Street, NationsBank's share price declined by 5% to \$51 before the close.

Bank of Montreal increases dividend

By Bernard Simon
in Toronto

BANK of Montreal, which posted the strongest earnings growth among Canada's six big banks last year, has raised its quarterly dividend and plans a 2-for-1 share split.

BMO announced at its annual meeting yesterday that the quarterly dividend would rise to 56 cents a share from 53 cents. The increased dividend will be paid to shareholders of record on February 8.

The share split will be achieved by declaring a 100 per cent stock dividend, to be paid on March 20 to shareholders of record on March 5.

BMO lifted net earnings by 7.5 per cent to C\$640m (US\$499m) in the fiscal year to October 31, compared with an average 50 per cent drop for the big six. It also posted the second-highest return on shareholders' equity, of 14 per cent.

Although its loan-loss provisions rose substantially last year, BMO has a smaller exposure than most of its competitors to Olympia & York and other troubled property groups.

Except for problems with a western Canadian coal mining company, the bank said in its latest annual report that "the rest of our portfolio withstood economic pressures very well."

BMO is gradually integrating its services with those of its wholly-owned US subsidiary, Chicago-based Harris Bankcorp. The two banks have merged their services to large corporate clients.

BMO's new trust-company subsidiary, officially launched last week, is expected to draw heavily on Harris's experience in fiduciary services.

PWA's Canadian Airlines International is reinstating 14 of the 32 flight segments it had suspended from its schedule earlier this month in an effort to tackle overcapacity.

"We cannot maintain reduced capacity in the double digits when Air Canada responds with a 3 per cent reduction," said a Canadian Airlines official.

Strong final quarter lifts Primerica to \$593m

By Patrick Horverson in New York

PRIMERICA, the diversified US financial services group, yesterday announced a 16 per cent increase in fourth-quarter profits to \$153.3m, in spite of a decline in brokerage earnings.

The strong final quarter took Primerica's full-year 1992 profits to \$593m, a 24 per cent improvement on the \$478.8m earned in 1991.

A net gain of \$88m from the sale of securities holdings and other assets, combined with lower debt costs and solid increases in profits at Primerica's consumer finance and insurance services divisions, helped to offset the drop in net income at the group's

Smith Barney stockbroking unit. Smith Barney reported a profit of \$38.2m in the final quarter, down from \$49.8m a year earlier.

The decline in earnings was attributed to lower trading revenues, the result of market conditions that were less favourable than in the fourth quarter of 1991, which was a particularly strong period for US equity markets.

Although profits tumbled off in the final quarter, Smith Barney still produced record earnings of \$170.1m for the full year, well up on the previous high of \$152.4m reported in 1991.

Large increases in broking, investment banking and asset

management revenues were behind the record performance.

Elsewhere in the Primerica group, earnings were higher than a year ago. Consumer finance services recorded net income of \$51.3m in the fourth quarter, up 13 per cent on the same period a year earlier and once again the result of cost containment measures and lower loan loss provisions.

Full-year earnings at consumer finance services reached \$193.5m, up from \$175m in 1991.

Profits from insurance services in the fourth quarter rose 19 per cent to \$46.8m, taking the division's annual profits to \$187.3m, compared with \$174.8m in 1991.

Sales of new life insurance remained flat, but mutual fund sales soared in the final three months of the year, boosting total sales for the year to \$1.1bn, up 36 per cent on 1991.

Corporate expenses dropped sharply in the quarter, falling from \$16.8m a year ago to \$6.7m, thanks primarily to low US interest rates, which reduced the cost of Primerica's debt. Overall, expenses in 1992 fell 51 per cent to \$48.2m.

Primerica also said yesterday it planned to take a charge of about \$15m in the first quarter of this year to cover the costs of adopting new accounting procedures relating to post-retirement benefits.

Retailing revolution south of the border

Mexico's larger store chains are joining forces with US groups, writes Damian Fraser

SPEND a Saturday at Mexico City's Club Aurora, the membership-only discount store half-owned by Wal-Mart, and you may never want to shop again. You will have to wait an hour to enter the car park, fight off customers to find a trolley, and spend another hour in the queue for a cashier.

Inside will be thousands of businessmen stocking up on office supplies, merchants buying supplies for their own shops, and elegant housewives buying imported food and clothes.

Company executives proudly say the Polanco Club Aurora sells more per square metre than the most successful Sam's Club (Club Aurora's twin) in the US.

Wal-Mart's outstanding success is the first sign of a revolution in Mexican retailing, spurred by competition in the sector, the opening of the economy to imports and the impending North American free trade agreement.

Small corner stores are losing business to the supermarkets. In turn, small supermarkets are being swallowed up by a handful of large Mexican chains. And the large chains are forming alliances with the giant US retailers.

Wal-Mart's partner is Cifra, Mexico's largest retailer. Price Club, the US warehouse club, has a similar venture with Comercial Mexicana, the third-largest Mexican retailer. Gigante, Mexico's second-larg-



Consumer choice: US stores gain access to an emerging market

est retailer has formed a joint venture with Fleming, the largest US wholesaler.

Not to be outdone, Liverpool, Mexico's up-market retail chain, announced in December a joint venture with K mart. They intend to invest \$500m to build 100 K mart stores in Mexico.

All these joint ventures have much the same purpose. As Mr Juan Carlos Mateos, planning director at Gigante, explains: "They have the know-how and we have the know-who."

The US retailers are gaining access to an emerging, consumer-starved market of 85m people, where profit margins are around 6 per cent on sales - around double those in the US. The Mexicans, in turn, have immediate access to US

technology, distribution and buying power.

The big winners are Mexican consumers, who can buy a vast array of (often imported) products at almost wholesale prices.

But many, especially small, undercapitalised Mexican suppliers will suffer. The big retailers, unlike the corner stores, buy in bulk or not at all: are quick to import if quality and price are better abroad; and expect goods to be packaged to their taste, with bar codes added, and to be delivered at the time they say.

Wal-Mart and Cifra have set the trend, opening their first Club Aurora last March, with two more soon afterwards.

They plan to launch another six before the end of this year.

In June, Cifra and Wal-Mart extended their joint venture, and formed two jointly-owned companies. The first is administered by Cifra, and consists of new Cifra supermarkets under existing Cifra brands: the second is administered by Wal-Mart, and comprises Wal-Mart supercentres, Club Aurora, distribution centres and an import-export company.

Cifra says it will benefit from Wal-Mart's technology that should enable it to control stocks better and increase turnover. Longer term, it hopes Wal-Mart will help Cifra expand from its base in central Mexico by improving distribution channels, says a company official.

Wal-Mart has "the best distribution system in the US", says Ms Christine Almer, an analyst at Baring Securities in Mexico City, and "will help Cifra become a national retailer."

Gigante has already opened a non-membership "price-impact" supermarket (called Supermart) with Fleming in the small town of San Juan del Rio, with another three expected to open by April. The company hopes to open about 10 Supermart stores a year, and to have 50 stores in operation in five years, with sales of \$1bn.

The company is aiming at middle-size Mexican cities, where there are fewer supermarkets and profit margins are

higher. Fleming is helping Gigante scan goods as they enter and leave the shop, thus helping control stocks, and advises on the lighting and layout of the stores, says Mr Wayne Epperson, head of the joint venture.

But Mr Epperson is in little doubt that Fleming could not enter Mexico without help from Gigante. He, like Mr Mateos, hints one day the joint venture will be extended to include other Gigante stores.

Liverpool's joint venture with K mart is perhaps the most incongruous, since Liverpool is an upmarket department store chain but will be managing K mart-style food and general goods stores.

"The joint venture," says Mr Michol Marcos, Liverpool's director-general, of Liverpool "will enable us to expand into different markets."

Like all US and Mexican retailers, Liverpool is betting that Mexico's economic reforms will raise the purchasing power of the middle- and lower classes, making US-style mass-market discount stores profitable.

Significantly, Liverpool and Cifra are using their US alliances to promote Mexican goods in the US through jointly-owned export/import companies. Both companies know that unless Mexico's retail consumer goods is matched by increased export revenues, the future for the retail sector is bleak.

Trial arbitration scheme for Canadian securities

By Bernard Simon

CANADIAN securities dealers and the Vancouver Stock Exchange are launching an experimental arbitration service to provide a quick and relatively inexpensive way of resolving disputes between stockbrokers and clients.

The service initially will be confined to claims of less than C\$25,000 (US\$19,500). Members of the Investment Dealers' Association, including most of the firms trading on the VSE, will be required to submit to binding arbitration if this is requested by a disgruntled client. Neutral arbitrators will be provided by the British Columbia International Com-

mercial Arbitration Centre.

The new scheme is an effort to defuse criticism that the self-regulatory efforts of securities dealers and stock exchanges have failed to provide adequate protection to investors or sufficiently harsh penalties on wrongdoers.

Under the rules, the arbitrator will be required to submit his findings within 60 days of a hearing. The arbitrator will also apportion costs, which are typically expected to total about C\$1,200, excluding legal fees should the parties decide to be represented by lawyers.

The IDA said it would set up a national arbitration system if the British Columbia project proves successful.

JAPANESE FINANCIAL MARKETS

The FT proposes to publish this survey on March 2, 1993. Japanese markets like their European counterparts have been hit by the current world recession but Japan remains a major economy with enormous potential. In a special survey, the Financial Times reports on the latest developments affecting Japanese financial sectors - a vital perspective for anyone wanting to do business in Japan.

For further information, please call Tatsuko Davis Tel: 071-873 3260 Fax: 071-873 3395

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January 15, 1993, London
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BIS report points to shortening of debt maturity profiles

COMPANY NEWS: UK

Substantial boost from favourable currency movements

Photo-Me up 21% to £10.5m

By Andrew Bolger

STERLING'S devaluation helped Photo-Me International, the world's largest photo-booth manufacturer and operator, increase pre-tax profits by 21 per cent to £10.5m in the six months to October 31.

Currency movements boosted profits by £1.3m, compared with a debit of £123,000 last time. Sales rose by 15 per cent to £72m.

The group translated its overseas earnings into sterling at the rate prevailing at the end of December.

Mr Dan David, chairman, said the worldwide recession showed signs of recovery and this, together with current operating returns, encouraged confidence in continued progress during the second half, subject to no significant exchange rate movements.

Mr David Miller, chief executive, said the best measure of the underlying performance was the 12 per cent growth in operating profits from £14.5m to £16.5m.

Operating profits grew less rapidly than turnover because about £3m of sales went to the group's new business, including "Fun" studios, which allow customers to be photographed in front of famous backdrops or with celebrities.

Another new business is the instant printing systems divi-



David Miller: huge potential for expansion in eastern Europe

its returns in hard currency. The group has 14 booths in China, which produce revenue in Hong Kong dollars.

Mr David said: "World demand for real identity ensures that the group continues to expand and we continue to look for realistically priced international opportunities."

Earnings per share rose 15 per cent to 10.76p (9.37p). The interim dividend goes up from 1.3p to 1.4p.

COMMENT

These results were above expectations, and the shares were duly marked up 15p to 34p. Photo-Me emphasised that much of the profits rise was due to the weaker pound and it is assuming there will be a smaller currency benefit in the second half. The new businesses are only just profitable, but the photo-booths keep chugging away impressively.

The real boon for these shares would come with greater use of photographs in bank cards, driving licences and identity cards. Forecast annual profits of £19.5m put the shares on a prospective multiple of 17.6, a slight premium. Some institutions have been put off by the high proportion of stock held by directors through nominees, but the register has become clearer and the shares are likely to attract an increasing following.

which has 2,000 business and invitation card machines worldwide, a quarter of them in the UK.

Potentially the most lucrative new business provides photos for identity cards, which are made in Hong Kong, Australia, New Zealand, Germany and the US. Although all the new businesses are profitable, they enjoy much lower profit margins than the core division.

Mr Miller said that although he continued to be excited by

the potential of putting photos on products such as bank cards and driving licences, these results showed the group could grow steadily even without such breakthroughs - which were largely in the hands of banks and governments.

Since the Berlin Wall collapsed in 1989, the group has put 200 booths into eastern Europe, Russia and the Baltic states. Mr Miller said there was huge potential for expansion there, the main constraint being the group's need to get

Lloyds Bank to pay £27m for AMC

By John Gapper, Banking Correspondent

LLOYDS Bank yesterday announced that it is to expand its share of the agricultural finance market to about 15 per cent by acquiring the Agricultural Mortgage Corporation from a consortium of high street banks.

Lloyds said it would pay £27m for AMC, which was set up by statute in 1988 to provide loans for first mortgages on agricultural, horticultural and forestry properties. AMC's net asset value in December was £57m.

Lloyds owns 13.3 per cent of AMC. The other shareholders are the Bank of England (27.4 per cent), National Westminster Bank (26 per cent), Barclays (17.3 per cent), Midland (13.3 per cent) and Royal Bank of Scotland (4.7 per cent).

AMC was deregulated in 1991 following an Act of Parliament in 1987. Although it made a profit of £7.8m in the year to last March and expects to make a similar amount this year, it has traditionally not sought large profitability.

Mr John Kaye, managing director, said the discounted price compared to asset value reflected the fact that AMC had a high ratio of loans to capital. AMC's lending amounted to £971m in September - about 8 per cent of the market.

Mr Kaye said AMC anticipated the bank injecting about £25m of capital into its new subsidiary. He said AMC had sought a single owner following deregulation.

Mr John Davies, Lloyds deputy chief executive, said the bank believed AMC had a "very sound" business that could be developed more vigorously under sole ownership.

Bock succeeds in acquiring 19% of Lonrho

Mr Dieter Bock, the German financier, has become Lonrho's biggest shareholder with an 18.8 per cent equity stake following completion of the group's 198.67m share rights issue.

As expected, a little more than 29.1m shares were taken up as a result of the 3-for-10 issue at 85p per share, representing 14.6 per cent of the offering.

Included in the acceptances were 27.6m shares taken up by Laersate, Mr Bock's private company. These shares were offset against Laersate's underwriting commitment for 100m shares.

Mr Bock had already acquired 43.5m shares from Mr Tiny Rowland, Lonrho's chief executive, giving him a total stake of 143.5m shares.

Mr Bock paid 115p a share, a substantial premium to the current share price, for half of Mr Rowland's 20 per cent stake. He has the option to buy the other half after three years, which would take his total holding to 24.8 per cent.

Overseas holders to dispose of 45% Watts Blake stake

By Andrew Taylor, Construction Correspondent

LEBANESE, Belgian and German shareholders yesterday announced plans to sell a combined 45 per cent stake in Watts Blake Bearer. The move is expected to trigger a full scale bid for the world's largest ball clay producer.

Ceramics Holdings, controlled by the Lebanese Garour family, Shelo, a privately owned Belgian-based producer of silica sand for the glass industry and Quarzwerke, a private German producer of silica sand, are making the sale under a concert party agreement reached last April.

The companies said that

under takeover rules: "the acquisition of the concert party members' holdings is likely to lead to an offer for the entire issued share capital of the company."

Mr John Pike, managing director of Watts Blake, said a sale to a single purchaser would make it very difficult for the company to defend itself from an unwelcome bidder.

"The board is gravely concerned about a number of issues that could arise from this proposed sale, including the implications for the company's employees and the local communities in which it operates," said Mr Pike.

The group based in Newton Abbot, Devon also owns exten-

sive reserves of ball clay in the US and Germany. Almost two thirds of sales are used for the manufacture of sanitary ware and wall and floor tiles.

Its performance is dependent upon the health of the construction industry; pre-tax profits in 1991 fell by 27 per cent to £5.67m.

Profits in the first six months of last year, however, rose by 7 per cent to £3.74m helped by acquisitions.

Should a recommended purchaser offer less than 45p a share, Shelo and Quarzwerke have the right to buy Ceramics shares at the same price.

Watts Blake shares yesterday rose from 425p to 435p having touched 455p at one stage.

Unigate in Co-op milk deal

By Maggie Urry

UNIGATE, the dairy, food processing and distribution company, has agreed to purchase for £17m some of the milk businesses of the Co-operative Wholesale Society.

The businesses cover 348 milk rounds in London, the south-east and Cornwall together with a processing

dairy in Penryn, Cornwall, with four depots.

The purchase will add about 1 percentage point to Unigate's share of the liquid milk market in England and Wales, taking it to just over 13 per cent. Assets involved are valued at about £6m and there are 217 employees.

The deal follows a previous

in-fill acquisition by Unigate of

Sussex Dairies last August. Mr Gordon Summerfield, managing director in charge of milk related activities, said the acquisition was in line with Unigate's strategy of "buying dairy businesses which fit in with our existing operations". He pointed out that said such acquisitions "allow for greater efficiency both in processing and distribution".

Carlsberg-Tetley starts trading

By Philip Rawstorne

CARLSBERG-TETLEY, the £500m joint venture formed by the merger of the UK brewing, distribution and wholesaling operations of Allied-Lyons and Carlsberg, began trading yesterday.

The merger, given the government go-ahead less than two months ago after a Monopolies and Mergers Commission inquiry, creates a third force in the UK brewing industry.

Carlsberg-Tetley, with an output of 6.2m barrels of beer a year from its six breweries,

will have an 18 per cent share of production, rivaling Bass with 23 per cent and Courage with 20 per cent.

The company, with an annual turnover of £1.1bn and profits of about £100m, has a strong portfolio of brands, including Carlsberg Pilsner, Skol and Castlemaigne lagers, each with sales of 1m barrels, and Tetley, the UK's best-selling ale.

Mr Don Marshall, Carlsberg Tetley's managing director, said yesterday that the partnership would also benefit from the combination of distri-

bution systems. Allied's strength in direct sales to the pub trade in the Midlands and northern England was complemented by Carlsberg's focus on wholesalers and other brewers, particularly in London and southern England.

The company is closing seven of its 32 depots with a loss of up to 100 jobs. No brewery closures are planned. Allied has recently closed its Romford plant and its smallest brewery at Alton, which was considered in danger of closure, will now brew Carlsberg for outlets in Scotland.

Carlton and LWT set up joint venture

By Raymond Snoddy

Carlton Television and London Weekend Television have set up a separate television sales company to attract continental European advertising.

The joint venture will try to persuade overseas advertisers, particularly in the food sector, that with a combined reach of 11m people, London is one of the most important markets in Europe.

The new venture, London Television European Sales, said that the London area accounts for 47 per cent of UK mineral water consumption, 44 per cent of UK charge cards, 37 per cent of UK businesses and 25 per cent of the UK retail outlet total of 30,000.

Lower dealing costs lift market in equity futures

By Joel Kibazo

REDUCED dealing costs and increased asset allocation activity led to a growth in trading of equity futures in 1992, according to a new guide published yesterday.

The guide, from UBS Phillips & Drew, is the third in what has become an annual event. It says increased liquidity has been generated by the growing use of futures to cover cash

positions. Also, more unit trusts have been dealing in futures to cover positions before investing in the underlying equity market.

However, it acknowledges that "the recent emphasis has focused on asset allocation switches."

The guide lists the leading contracts traded on the world's main stock markets with a detailed breakdown of turnover and contract size.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding dividend	Total for year	Total last year
Aberdeen Trust	0.5	Mar 10	1.5	1.5	2.5
Aerospace Eng	0.25	Apr 2	0.5	0.5	1
French Prop Tel	1	Mar 1	nil	-	nil
Peel	1	Apr 8	1	-	3
Photo-Me Int	1.4	Apr 6	1.3	-	4.4
Soundtracs	1.35	Apr 16	1.35	2.2	2.2

Dividends shown pence per share net except where otherwise stated. \$USM stock.

Measuring up for a water fight

Bronwen Maddox reports on the argument over Ofwat's price review

FUNDAMENTALLY arbitrary and flawed" was one of the accusations hurled yesterday by the water industry at proposals from Ofwat, its regulator.

The latest skirmish is part of the build-up to the crucial Periodic Review in 1994, when Ofwat will reassess the basis for water bills for the first time since the 1989 water privatisation, and set future price rises.

It reveals the extent of the differences yet to be resolved between the two sides over the basis for setting water prices.

The attack is contained in the industry's 50-page response to a consultation paper from Ofwat in November on the correct definition of the companies' capital value, a notoriously slippery figure.

Their assets include miles of Victorian sewers and pre-war water mains, whose value is highly debatable, as well as state-of-the-art treatment plants, part of a huge industry-wide spending programme which could cost some £45bn by the year 2000.

A dry and highly-technical issue, the definition is nevertheless central to the review: unlike the regulators of the same return on old assets as on new ones, the industry would make "too much profit" and the customer would suffer through higher prices.

The approach favoured by Mr Byatt, Ofwat's director general, in his November paper is to take the stock market value

at flotation in December 1989 as the value of assets at that point - £6.1bn at the end of the first day's trading.

By bringing it up to date, he proposes adding on the capital spending since then. This hybrid system - market value for the old assets, and current value for the ones bought after 1989 - gives a capital figure of some £12bn to £13bn.

Given the pre-tax profits of £1.5bn made by the industry in the year to March 1992, it suggests - in rough terms - a pre-tax return on capital of some 11 per cent.

Ofwat has argued that the attraction of this approach is its simplicity. It also gives a relatively high figure for return on capital, for which the water customer should be grateful, as it would allow Ofwat to be tough at the periodic review.

Mr Byatt has pointed out - in a good illustration of the difficulty of the definition - that if, instead, he took the cost of building the assets at today's prices, which several companies suggested, that could lead to a capital figure as high as £100bn. If he allowed the companies to earn the same return on old assets as on new ones, the industry would make "too much profit" and the customer would suffer through higher prices.

The water companies have attacked Mr Byatt's arguments on two main points. Their paper "questions Ofwat's pre-

ference for [stock] market-based valuations". Instead, it wants Ofwat to use the government's own "indicative values", calculated in 1989 on the basis of projected cashflows.

The water industry argues that this is the only measure of value which treats the 10 large water and sewerage companies which are floated on the stock market on the same basis as the 33 water-only companies which remain in private hands.

Its paper argues too that Ofwat's version is guilty of "circularity": it defines the value of the assets by the stock market value, but the value that the market puts on the companies is partly based on its view of how much profit Mr Byatt will let the assets earn.

City analysts said yesterday that they thought Ofwat would have to consider the arguments seriously. However, they pointed out that as some of the indicative values were higher than the stock market values at flotation, this could help the water companies' arguments for a higher capital figure.

The water companies also attacked Ofwat's proposal to give back to customers some of the price rises permitted during years of heavy spending to allow companies to keep interest charges - a necessary "cushion" if banks are to agree to lend them money. Ofwat's argument is that this is an

"advancement" of revenue and should be returned to the customer once the spending programme has diminished.

The companies have called this "neither rational nor fair", arguing that it "could not be implemented in a way which is clear and comprehensible either to customers or the capital markets".

Their complaint is that there is no obvious "benchmark" level of prices by which to measure the "advancement" of revenue. The proposal could be "self-defeating", they warn, because immediately Ofwat selected a benchmark, bankers would use it to calculate the "cushion" for their interest payments instead of using the actual revenue.

This will not be the last tussle between the two sides. Within a few weeks Ofwat will publish its final consultation paper before the review - on how the UK's supply of water can be increased and who should pay for it.

Water companies' finance directors believe an answer to these and other hurried conflicts - including a long-standing disagreement on the cost of capital - will eventually be hammered out in horse trading during the review.

But yesterday's report shows that differences between the companies and their regulator are still considerable and that resolution of the differences is unlikely to be easy or quick.

See Lax

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Paris, 10 & 11 February 1993

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Gestetner sale talks abandoned

By Richard Gourley

GESTETNER Holdings, the office and photographic equipment distributor, yesterday said the sale of its Vivitar and Haninex camera distribution businesses had fallen through. Concord Camera Corporation of the US and Gestetner jointly called off the talks after Concord failed to put together the necessary financing.

The sale would have further

focused Gestetner on its core office equipment markets after diversification into the photographic supply business. When the proposed sale was announced last September, Mr Basil Sellers, Gestetner chairman, said one reason the group was withdrawing was that there was no follow-on market in camera distribution, as there was in office supplies.

The deal would have involved the sale of the camera business apart from Haninex Australia. In the year to October, the camera business reported trading profits of £1.1m on sales of £81.4m.

The collapse of talks with Concord is unlikely to be seen as particularly bad news for Gestetner's finances. The £40m (£26.3m) cash and 1.3m Concord shares which it would have received in payment would have had little impact on a balance sheet that appears to be relatively lowly geared for a distribution company.

But equally, the failed sale will do little to dispel the bid speculation that has surrounded Gestetner since last year.

Since the Australian group, Chiffert Capital - then called AFP Investments - took man-

agement control of Gestetner in 1986, the revitalised company has never really fulfilled its early promise. Haninex was one of the group's first diversifications in 1989 after two successful years in which cost were cut and its manufacturing culture was replaced successfully with a more market-driven approach.

Two years ago Ricoh, the Japanese photocopier group, bought a 24 per cent stake in Gestetner from AFP in a deal that valued Gestetner at about \$500m.

At yesterday's close of 151p, the group is worth barely half that.

Tay shares fall 10% on profits warning

By Andrew Taylor, Construction Correspondent

THE SHARE price of Tay Homes tumbled by 10 per cent yesterday to 151p after the company became the latest housebuilder to issue a profits warning.

Mr Trevor Spencer, chairman, said that the collapse of the housing market last autumn meant that group pre-tax profit for the year to June 30 was unlikely to be as high as had been expected.

Analysts yesterday cut their forecasts from about \$8m to between \$4m and \$4.5m. This compares with pre-tax profits of \$6.14m last year and \$8.26m in 1990-91.

Mr Spencer said that the group, like other housebuilders, had been hit by the devaluation of sterling last autumn which had dented the confidence of would-be buyers. Tay had been forced to reduce prices in order to maintain unit sales, which were expected to be similar to the 1,100 achieved in 1991-92. Average prices had fallen from \$68,000 to \$63,000 during the past 12 months.

Sales, however, had improved sharply during the first three weeks of this year. "Visitor levels have been high and sales good. We can only hope that this is the beginning of the long-awaited housing market recovery," he said.

Net borrowings at the end of December were £20.5m, representing 68 per cent of shareholders' funds.

GrandMet foresees end to dispute with Brent Walker

By Andrew Jack

GRAND METROPOLITAN, the food, drinks and retailing group, expects to settle by this summer its dispute over a \$50m payment from Brent Walker for the sale of William Hill, the betting shops chain, a senior company executive said yesterday.

Mr David Nash, GrandMet's finance director, said the dispute over deferred payments totalling more than \$50m and \$10m in interest from Brent Walker should be settled by "mid year" with the help of an adjudicating accountant. Details of the negotiations were disclosed for the first time in GrandMet's 1992 annual report and accounts, which were circulated yesterday.

The report presented the company's results in line with the latest rules issued by the Accounting Standards Board. This had the effect of increasing pre-tax profits from \$902m to \$925m in the year to September 30 1992. The restated 1991 results were more than halved from \$960m to \$448m, principally as a result of FRS 3, the new standard on the profit and loss account which virtually eliminates extraordinary items. Most of the restated figures had already been shown in a note to the company's preliminary results released in September, and had little effect on the share price, which closed unchanged on the day at 420p.

The accounts also show that emoluments excluding pension contributions to Sir Allen Sheppard, chairman and chief executive, rose from £713,391 to £770,682.

The value of intangible assets - such as brands - increased on the balance sheet by £60m, offset by a reduction of £32m caused by exchange adjustments.

There were post-employment provisions of £113m and performance guarantees and indemnities to third parties totalling £18m.

The company said it supported "in spirit and letter" the recommendations of the Cadbury committee on corporate governance, and complied with 16 of its 19 guidelines.

Peel rises 8% despite weak property market

By Matthew Curtin

PEEL HOLDINGS, the Rochdale-based property group, reported an 8 per cent improvement in pre-tax profits from £1.4m to £1.7m in the half-year to September 30.

Mr John Whittaker, chairman, said demand for property was weak and rental income declined. Demand for retail warehousing had, however, remained strong.

Turnover rose to £32.2m (£29.8m). Property sales amounted to £26.6m at about book value. Net rental income was £21.1m which more than covered interest charges of £19.7m.

Borrowings stood at £349m, the bulk of which originated in the group's £304m takeover of

London Shop in 1988. The interim dividend is held at 1p. Mr Peter Scott, managing director, said Peel increased its stake in the Manchester Ship Canal to 75.6 per cent - the second increase since the group acquired a 68 per cent interest in May 1991 - and would like to acquire the outstanding share capital, saving the group the costs and complications of maintaining two separately listed companies.

He said the group had failed to agree a fair value for MSC in past talks with its minority shareholders. Valuing the company was complicated by its outstanding planning application for a 1m sq ft shopping centre at Dimplington, Manchester, likely to be resolved soon.

Reorganisation at Ocean to involve 500 job losses

By Peter Pearce

SHARES IN Ocean Group rose 15p to 265p yesterday on the announcement by the freight, environmental and marine services company of changes to reorganise its management and overhaul structure.

Mr Nicholas Barber, chairman, said: "We, like most other companies at the moment, are suffering the pain of recession. We're not looking for green shoots and aren't expecting any for a while."

The reorganisation will involve nearly 500 redundancies and is expected to incur one-off costs of about \$8m, which will be taken in the accounts for the year to December 31 1992. It follows July's relocation of

the head office from central London to Bracknell and the stripping out of the divisional level of the management structure.

Mr Barber said that yesterday's move would not have much benefit in the 1993 year, but that in the full 1994 period, he expected the savings would more than balance the \$8m exceptional costs incurred.

Although some operating locations will be closed in the cost-cutting exercise, some "90 or more per cent" of the 11 concerns management level redundancy.

The head offices in Bracknell and Liverpool will lose about 80 jobs between them and the balance will go from the regional offices.

British Thornton up sharply

WITH SALES sharply higher at £3.92m, against £1.11m, pre-tax profits of British Thornton Holdings, the furniture making and contract packaging group, moved ahead from £20,000 to £301,000 in the six months to October 31.

However, serious problems arose in the educational and scientific furniture businesses and significant trading losses were incurred. A number of senior management changes have been made and steps taken to increase efficiency and reduce overhead costs.

The result this time was struck after a £171,000 exceptional charge being compensation to a former director for loss of office and related costs. Earnings per share were 0.2p (0.09p). A special interim dividend of 0.25p (nil) has already been declared.

Aberdeen Trust cuts final dividend

Aberdeen Trust, the investment and unit trust management group, raised pre-tax profits to £1.76m in the year to September 30, against £1.23m struck after an exceptional charge of £1.36m.

Despite net attributable profits ahead at £1.28m (£851,000) and earnings per share at 1.53p (1.45p), the final dividend is cut from 1.5p to 0.5p making a total of 1.5p (2.5p).

The company said it believed that dividends had previously been maintained at an unsustainable level and now wished to adopt a long-term policy capable of producing growth. It believed that a period of

consolidation was appropriate to enable it to develop investment activities and to maximise operating profits. A rationalisation programme had been commenced which would significantly reduce overheads.

Next 5.75% bond cancellation

Of the offer by Next, the high street retailer, to cancel up to £1.5m of 5.75 per cent convertible bonds 2003, some £942,500 bonds have been tendered and cancelled. A balance of £553,283 remains outstanding.

Under the tender offer 471,567 Next new ordinary shares of 10p will be allotted, credited as fully paid. They will rank pari passu with existing ordinary shares.

Aberdeen Petroleum maintains opposition

The board of Aberdeen Petroleum yesterday cast doubt on the value of an unwelcome merger proposal from US-quoted Bellwether Exploration. In a letter to shareholders, Aberdeen urged investors not to support the suggested swap of 3.75 Aberdeen shares for each of Nasdaq-quoted Bellwether's.

"There is minimal marketability in the shares of Bellwether," the board said. "In these circumstances, it is not possible to form a view as to the value of the consideration proposed by Bellwether."

First half fall hits Real Time shares

Shares of Real Time Control fell 15p to 78p yesterday on news that profits for the half year to September 30 had fallen from £507,000 to £258,000 at the pre-tax level.

Turnover was virtually static at £3.1m. The USM-quoted group develops and services computer systems. Earnings per share were 2.5p (4.9p). The directors said the results in the UK epus market reflected the high cost of obtaining business in the recessionary period.

49% take up of Albrighton offer

The open offer of 44.25m new ordinary shares by Albrighton, the USM-quoted provider of products to the construction industry, was taken up as to 21.73m shares, or 49 per cent.

The remaining shares will be taken up by institutional and other investors with whom they had already been conditionally placed. The offer was on a 7-for-1 basis at 12p per share to raise £4.96m.

Jupiter European net assets decrease

Jupiter European Investment Trust reported a fall in net assets per share to 66.2p at the end of October 1992, against 79.9p a year earlier. After-tax revenue, however, increased from £50,831 to £32,490, representing earnings per share of 0.69p (0.85p). An interim dividend of 0.5p has already been paid for the current year.

Soundtracs falls to £350,000

Profits of Soundtracs, the professional audio equipment specialist, fell from £545,699 to £250,385 pre-tax for the 12 months to November 6. Directors blamed the setback on pressure on margins.

Turnover improved by 6.5 per cent to £4.11m. About 85

per cent of production is exported to North America, the Far East and Europe.

Earnings emerged at 2.45p (3.79p). A final dividend of 1.35p makes a same-again 2.3p total.

Along with its results Soundtracs announced its first acquisition since joining the USM in 1986. It is paying £300,000 cash for Sussex-based Sendor Audio Systems.

For the year to April 30 1992 Sendor returned pre-tax profits of £28,000 and had net assets of £413,000.

Barlo improves to £390,000

Barlo Group, enlarged via the acquisition last July of IRG, the plastic processing company, returned pre-tax profits of £390,000 (£410,000), for the six months ended September 30.

That compared with £319,000 last time which included exceptional income of £126,000. Higher interest charges of £225,000 (£149,000) resulted from the IRG purchase.

Turnover totalled £115.1m (£6.14m) with the radiator division ahead by 34 per cent at £28.22m. Earnings per share worked through at 0.46p (0.44p).

Abtrust Scotland net asset value lower

Net asset value of Abtrust Scotland Investment Company fell from 32.2p to 29.2p per share over the six months to November 30. A year earlier the figure stood at 30.3p.

Net revenue for the six months to end-November was down at £8,592 (£50,429) for earnings per share of 0.08p (0.18p). The comparative period included a one-off dividend of £52,500.

Johnson Cleaners in £2.9m purchase

Johnson Group Cleaners has acquired Imperial and Queen Landries, the Staffordshire-based workwear rental business, for £2.9m, in a move which will boost its growing share of the UK textile rental market. Pre-tax profits of Imperial and Queen in 1991 were £249,000 on turnover of £2.7m. It services a wide variety of companies in the Potteries.

Inchcape lifts stake in Revasa

By Andrew Bolger

INCHCAPE, the motor and businesses services group, has increased its stake in Revasa, the Italian insurance broker, through Bain Clarkson. Its wholly owned insurance broking subsidiary.

Bain Clarkson will pay a maximum of £1.7m, subject to performance, to lift its stake in Revasa from 10 per cent to 49 per cent. Bain Clarkson bought its initial 10 per cent shareholding in January last year.

The Milan-based broker, currently ranked 10th in Italy in revenue terms, is involved mainly in the property, casualty and construction sectors.

Mr Simon Arnold, chairman of Bain Clarkson, said: "Italy is an important market for us. This increased shareholding in Revasa will give us a stronger position in the country, moving us forward in our strategy to gain prominence in the

major European markets through shareholding arrangements such as this."

Bain Clarkson also has operations in Greece, Ireland, Sweden, Switzerland and France, where it recently acquired a 25 per cent stake in CECAR, the country's third largest broker.

Contrary to a weekend press report, Bain Clarkson's results are understood to be holding up well, in spite of difficulties in the reinsurance market.

Buy-outs in Scandinavia



Enskilda Ventures Limited is the leading Nordic buy-out firm with eight completed transactions since 1990 and equity capital in excess of SEK 750 million in Scandinavian Acquisition Capital. Scandinavian Acquisition Capital consists of Nordic institutional investors representing major pension funds, banks, insurance companies and industrial holding companies.

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For further information please contact Björn Savén, Harald Mix, Bernd Petersen or Kim Wahl at Enskilda Ventures in London, Stockholm or Oslo as below.

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Application has been made for 10,916,030 Ordinary Shares of 25p each in Merrydown PLC (the "Company") to be admitted to the Official List. It is expected that such admission will become effective and that dealings in the Ordinary Shares of 25p each will commence today, 19th January 1993.



MERRYDOWN PLC

(Incorporated and registered in England under number 424215)

Introduction to the Official List of 10,916,030
Ordinary Shares of 25p each

Share capital

Authorised

£

3,000,000

Issued and fully paid

£

2,729,007.50

Ordinary Shares of 25p each

Merrydown PLC, formerly Merrydown Wine PLC, is engaged in the business of manufacturing and selling cider and adult soft drinks.

Copies of the Listing particulars may be obtained during normal business hours on any weekday (Saturdays and the public holidays excepted), up to and including 21st January 1993, from the Company Announcements Office of the London Stock Exchange, Capel Court Entrance, off Bartholomew Lane, London EC2N 1HP (by collection only) and up to and including 1st February 1993 from:

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19th January 1993

CONTRACTED BUSINESS SERVICES

The FT proposes to publish this survey on February 19 1993. For editorial synopsis and available advertising positions contact: Jessica Perry
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FT SURVEYS

REPAP ENTERPRISES INC.

US \$200,000,000 FLOATING RATE NOTES DUE 1997
For the period 19th January 1993 to 19th April 1993 the Notes will carry an interest rate of 4.20313 per annum. The amount payable per US \$250,000 will be US \$2626.96 payable on 19th April 1993.

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CIS says aluminium output to fall by more than 10%

Chinese connection helps locals to win Russian copper contract

Despite a vallant effort by

Connection between Russian copper

Helps locals win contract

Similarly, the 1992 Australian price of \$38.90 a tonne, is more than \$10 higher than spot settlements into Asian and European markets.

Why are British consumers buying so much foreign-produced food?

Under the chairmanship of the prime minister they determined, among other things, to collaborate to try to source more food from UK producers.

Whether it is a realistic objective even to try to build groups to match the strength of the supermarkets is doubtful. As someone pointed out at a farming conference a few days ago, to be equal in turnover to Sainsbury alone it would be necessary to control 20m acres – half the UK.

consumers. It should set standards for ethical, responsible and safe methods by which food should be produced. And it should provide a system of verification that the quality standards being claimed are achieved.

It would not be easy, because of factional interests. But the reward for attempting it could be a truly integrated British food industry serving the interests of the government, the farmers and the consumers.

Japan is the largest market for the state-owned company's ore production, accounting for about 19m tonnes of the company's 60.4m tonnes of exports

material, from the Carajas site, will be supplied at \$18.15 a tonne and southern sinter at \$16.90 a tonne.

The company also revealed that producers in the UK and Italy will enjoy similar price reductions.

SOUTH AFRICA'S 1992-93 maize crop is at a critical stage and widespread rains are needed in the next few days to prevent a crop failure for the second year running, industry officials said, reports Renter from Johannesburg.

Apr	104.5	104.0	104.0
May	105.0	104.8	104.5
Jul	104.0	104.0	103.5

Turnover: 13 (12) lots of 3,250 kg

1850	11	Aug	18.53	18.53	18.57	10.47
		Sep	10.55	19.57	19.56	18.50

Aug	18.53	18.53	18.57	18.57
Sep	10.55	19.57	19.56	19.56

Spot	122.54	122.55	121.91	114.88
Futures	122.49	122.91	121.58	122.61

Jul	37.800	39.350	39.050	87.300
Aug	35.750	39.350	39.300	37.875

	Jan. 18	Jan. 14	month ago	yr ago
Spot	123.84	123.60	121.51	114.85
Futures	122.48	122.91	121.58	122.61

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	Close	Previous	High/Low
Feb	35.678	37.500	87.525 36.560
Mar	36.325	37.900	37.900 36.125
May	37.590	38.975	39.050 87.300
Jul	37.800	39.350	39.350 37.875

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INVESTMENT TRUSTS - Cont.

Trust Name	Price	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	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MANAGED FUNDS NOTES
 Please consult otherwise indicated and
 with no profit to refer to \$5. dollars Yield
 1. **Income tax expense.** Prices of certain
 2. **Capital gains tax expense.** Capital gains
 3. **UK taxes.** A Portfolio invest
 4. **Simple annuities insurance.** A G
 5. **UCITS identification.** For Collec
 6. **Transferable Securities.** A Offered
 7. **Expense except agent's commission**
 8. **price.** 1. **Gross profit** 2. **Suspense**
 9. **tax.** 1. **Ex-emption.** It Only anal
 10. **body.** 4. **Yield column** shows annual
 11. **and or dividend**
 12. **SIB recognition.** The regulatory author
 13. **are.** **Governey.** **Financial** **Service**
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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Slight uncertainty on dollar

THE DOLLAR slipped by exactly 9 pence against the D-Mark in European trading yesterday after Bundesbank officials dashed hopes of another near-term cut in German interest rates, writes James Blitz.

At the end of last week, the dollar had enjoyed a rally up to DM1.8355, as some dealers started to think that the Bundesbank could cut short-term rates at its council meeting on Thursday. There has been speculation that the Bundesbank could cut its officially posted ceiling rate, the Lombard, by up to 50 basis points this week.

However, Mr Hans Tietmeyer, the Bundesbank's No.2, helped to quash such thoughts yesterday, by saying that inflation was well above what was acceptable over the longer term.

His remarks followed comments from Mr Oskar Ising, the Bundesbank's chief economist, who said that inflationary dangers had not been averted, in spite of the weakening economy.

The dollar's fall through a key support level of DM1.8200 was probably due to technical factors, too. The currency has risen too pence since

December 18, and a retraction was to be expected as dealers took profits. The US currency closed in London at DM1.8155.

Mr David Cocker, chief economist of Chemical Bank, believes that the dollar will go higher, reaching DM1.85 this year. "The dollar's rise will accelerate," he says, "as interest rate levels come together on a world-wide basis." He believes this convergence is certain to be led by cuts in German interest rates.

However, Mr Jim O'Neill, head of research at Swiss Banking Corporation in London, believes the dollar rally could peter out from here. "We are into the third week of the year," he says, "and the dollar has not made as much progress as had been expected. A lot of people will review their scenarios."

Mr O'Neill believes that the US economic upturn is not as strong as anticipated, and there is a lingering possibility

of another cut in short-dated US interest rates.

The huge trade budget and deficits in the US also set limits on how much the dollar can rise, Mr O'Neill believes that, at best, the dollar will go no higher than DM1.70 this year.

Tensions inside the European exchange rate mechanism continued to subside, and, for the first time this year, every ERM currency was within 50 per cent of divergence from its central rate against the European Currency Unit (Ecu).

The comments from the Bundesbank weakened the French franc yesterday, and it closed at FF73.385 to the D-Mark, more than a cent weaker on the day. Pressure on the Irish punt eased. Irish interbank offered rates were quoted at between 19 and 23 per cent compared with Friday's levels of 33 to 40 per cent.

EMS EUROPEAN CURRENCY UNIT RATES

	Jan 18	Jan 19	% Change	% Spread	% Spread
Spanish Peseta	143,388	139,149	-2.94	3.64	47
Portuguese Escudo	102,194	100,898	-1.28	3.61	46
Italian Lira	2,020,000	1,998,000	-1.09	3.61	46
French Franc	6,549,600	6,499,600	-0.76	3.61	46
German Mark	1,936,268	1,936,268	0.00	3.61	46
British Pound	1,636,000	1,636,000	0.00	3.61	46
Irish Punt	7,875,640	7,875,640	0.00	3.61	46
Swedish Krona	1,035,000	1,035,000	0.00	3.61	46
Belgian Franc	1,336,000	1,336,000	0.00	3.61	46
Dutch Guilder	1,936,000	1,936,000	0.00	3.61	46
Austrian Schilling	1,336,000	1,336,000	0.00	3.61	46
Yugoslav Dinar	1,336,000	1,336,000	0.00	3.61	46
Czech Koruna	1,336,000	1,336,000	0.00	3.61	46
Slovak Koruna	1,336,000	1,336,000	0.00	3.61	46
Hungarian Forint	1,336,000	1,336,000	0.00	3.61	46
Polish Zloty	1,336,000	1,336,000	0.00	3.61	46
Czech Koruna	1,336,000	1,336,000	0.00	3.61	46
Slovak Koruna	1,336,000	1,336,000	0.00	3.61	46
Hungarian Forint	1,336,000	1,336,000	0.00	3.61	46
Polish Zloty	1,336,000	1,336,000	0.00	3.61	46

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FINANCIAL FUTURES AND OPTIONS

LIFE LONG-TERM FUTURES OPTIONS

Strike	Call-settlements	Put-settlements	Strike	Call-settlements	Put-settlements
97	2.53	0.09	103	2.42	0.18
98	1.43	0.19	104	1.57	0.23
99	1.17	0.37	103	1.16	0.56
100	0.84	0.71	106	0.48	1.01
101	0.47	1.36	107	0.26	0.87
102	0.11	2.31	108	0.13	0.41
103	0.06	3.25	109	0.06	0.26
104	0.02	4.00	110	0.03	0.43
Estimated volume total, Calls 231 Puts 598			Estimated volume total, Calls 0 Puts 0		

WORLD STOCK MARKETS

[illegible][illegible][illegible][illegible]

CANADA										U.S.									
TORONTO		JAN		FEB		MAR		APR		MAY		JUN		JUL		AUG			
15		14		13		12		HIGH		LOW		15		14		13			
Meats & Poultry		2764.64	2748.81	2747.17	2800.25	3238.87	3161.93	2529.91	3177.11	2529.91	3177.11	2529.91	3177.11	2529.91	3177.11	2529.91	3177.11		
Composites		3066.50	3303.00	3279.20	3341.54	3666.00	3516.75	3162.93	3415.00	3162.93	3415.00	3162.93	3415.00	3162.93	3415.00	3162.93	3415.00		
NORTHEAST, Portland		1714.2	1748.5	1744.2	1749.50	2259.59	2162.93	1663.16	2162.93	1663.16	2162.93	1663.16	2162.93	1663.16	2162.93	1663.16	2162.93		
Base values of all indices are 100 except HYSE All COMPOSITE - 566; Standard and Poor's - 10; and Russell Composite and Metals - 1000. Toronto includes based HYSE and Montreal includes based HYSE. * Excludes bonds, interest, plus utilities, financial and transportation, and closed. ** Excludes the U.S. index. The U.S. index is the average of the high and low values of the high and low and lowest prices recorded in the day by each stock; whereas the actual day's high and low values are the highest and lowest prices recorded in the day by each stock. The actual day's high and low values are in brackets are previous day's.																			

TOKYO - Most Active Stocks						
Monday, 18 January, 1993						
	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices
Nippon Steel	2.5m	389	+2	Teikoku Steel	1.5m	640
Asahi Chem Ind.	1.7m	375	-6	Green Cross	1.4m	1,180
Kansei Electric	1.7m	724	+1	Iyo Bank	1.4m	739
Suntomo Chem.	1.6m	621	+3	Toshiba Corp.	1.2m	807
Aika Bank	1.5m	833	+1	YMC Bank, Plc.	1.2m	822

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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

34% 80% BestSouth x 2.78 51 132488 34% 50% 34

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VT-2870**



**Log & Shuttle
Auto Tracking**

 **SAMSUNG**
Electronics

Technology that works for life.

NYSE COMPOSITE PRICES

[illegible]**NASDAQ NATIONAL MARKET**

3 pm January 18

[illegible]

AMEX COMPOSITE PRICES

3 pm January 11

[illegible]

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FT SURVEYS

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AMERICA

Dow steady amid worries on Iraq raid

Wall Street

IN spite of the Gulf crisis, US share prices were mostly unchanged yesterday in trading that was quieter than usual because of the Martin Luther King Day holiday, writes Patrick Harrington in New York.

At 1 pm, the Dow Jones Industrial Average was up 0.54 at 3,271.66. The more broadly based Standard & Poor's 500 was down 0.71 at 436.44, while the Amex composite was up 0.23 at 403.88, and the Nasdaq composite 1.08 lower at 666.26. Trading volume on the NYSE was 115m shares by 1 pm.

The market opened in a cautious mood with investors and dealers unsettled by the latest attack by US and allied forces on strategic military targets in

SAO PAULO'S Bovespa index was down 4.1 per cent in light trading in the early afternoon, quoted 3,721 lower at 85,276 at 1400 local time, as most participants waited for fresh news. Brokers said that investors were anxious over the Brazilian senate's vote today on a long-delayed port bill, which will propose the privatisation of services and deregulation of the labour market.

Iraq. The renewal of hostilities has upset the market, which had thought that late January would be a period for concentrating on fourth quarter corporate results and a relatively smooth handover of power between the outgoing Republican and incoming Democratic administrations.

Among individual stocks, BankAmerica jumped 1 1/2% to \$49 on reports that the West Coast banking group was close to selling as much as \$2bn in bad real estate loans and properties to Morgan Stanley Realty Fund.

The news, which was regarded as an indication that the depressed US property market may be turning

around, helped other banks with big property exposures including Citicorp, up 1/4% at \$23 1/2 and Chase Manhattan, 3/4% firmer at \$29 1/2.

Tucson Electric Power was the day's most active stock, rising 1/4% to \$2 1/2 in volume of 2.6m shares as investors continued to be encouraged by last week's completion of a restructuring plan.

Some leading technology stocks ran into profit-taking after last week's big gains. Hewlett-Packard dropped 1 1/4% to \$71 1/4, Texas Instruments fell 1/4% to \$54 1/4, and Motorola gave up 1/4% at \$120 1/4.

Boeing rose 1/4% to \$37 1/4 in volume of almost 1/2m shares on the news that it had won a \$525m contract to supply 12 new 737 jets to Royal Air Maroc, a Moroccan carrier.

On the Nasdaq market, Centex plummeted 10 1/4% to \$2 1/4 in volume of 10m shares on the news that clinical trials and European sales of the company's lead product, Centoxin, had been suspended after an unusually high number of patients died while taking part in research on the drug.

CANADA
TORONTO slipped marginally at midday with the TSE-300 index falling 9.3 to 3,396 in light volume of 15.3m shares, valued at C\$134m. Advances led declines by 217 to 238 with 255 unchanged. TransCanada, downgraded to a hold from a buy by Nesbitt Thomson, slipped C\$3 to C\$15 1/4.

SOUTH AFRICA
INDUSTRIAL shares were generally firmer in low volume and the index closed 15 higher at 4,573. The overall index rose 3 to 3,418, while golds slipped 5 to 784 on a weaker bullion price. Barlow Rand lost 25 cents to R46 after warning that first-quarter earnings might be below the equivalent 1992 period.

EUROPE

German rate cut hopes move Frankfurt, Zurich

BORSESSE had another run yesterday at the frequently explored prospect of a German interest rate cut, Frankfurt rising and Zurich subsiding in consequence, writes Our Markets Staff.

FRANKFURT saw its highest close for nearly four months, the DAX index ending 38.58, or 1.85 per cent higher at 1,573.13, its best since September 21. Turnover climbed from DM5.2bn to DM6.2bn.

Technical and fundamental reasons were put forward for the rise, in addition to the initiative by traders who saw the possibility of a short term gain on the market, both on the interest rate theme and after the improvement in sentiment delivered by Siemens's better than expected figures last Thursday.

Traders said that there was short-covering after Friday's stock options expirations and Allianz, frequently volatile in this connection, put on DM63 to DM2,067. Buying was also encouraged by the convincing DAX break through 1,560 and some illiquid stocks - notably

the construction group, Hochtief, up DM55 to DM978 - exaggerated the underlying strength of demand.

Among stocks which appeared on various brokers' buy lists last Friday, Daimler ended DM13.50 higher at DM64.00, BMW and Volkswagen keeping it company with gains of DM10 and DM7.50, to DM499 and DM276 respectively. In chemicals, Hoechst extended its recent return to relative strength with a rise of DM8.40 to DM255.80.

PARIS started the week strongly with activity noted in the finance and construction sectors. The CAC-40 index closed 10.48 ahead at 1,337.54 in turnover of some FF2.8bn.

Among the financials, Suez gained FF9.20 to FF278.30, Paribas put on FF4.30 to FF294.80 and Societe Generale improved FF1 to FF603 as investors continued to look forward to lower interest rates.

Building stocks were also busy on expectations that infrastructure spending would be increased this year, a view partly borne out by news that

FI-SE Actuaries Share Indices

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1053.97	1092.79	1092.27	1091.23	1094.97	1086.77	1096.39	1087.15
FT-SE Eurotrack 200	1166.27	1163.28	1163.38	1162.80	1163.59	1166.79	1165.98	1166.50
Jan 15	Jan 14	Jan 13	Jan 12	Jan 11				
FT-SE Eurotrack 100	1089.56	1076.53	1063.02	1071.43	1069.87			
FT-SE Eurotrack 200	1160.32	1154.06	1144.79	1152.84	1155.95			

The publishing sector built on last week's gains with Wolters Kluwer another F1.40 ahead at F186.60 and Elsevier up F1.00 at F124.30. Among financials, ABN Amro and ING both gained 40 cents to F152.70 and F157.60 respectively.

ZURICH succumbed to profit taking in blue chips which left the SMI index down 16.4 at 2,084.6 with almost half the decline coming in the final 15 minutes of trading.

The consolidation also reflects shifts in investment into other European bourses. F1.25 lower at F17.05 but off the day's low of F16.50. The CDS Tendency index closed 0.7 higher at 98.1 helped by a strong bond market.

Union Bank down SF4 to SF885 and SBC easing SF6 to SF813. Concern that Nestlé may soon announce a rights issue contributed to a SF20 decline to SF1,070.

MILAN turned in another strong performance on the first day of the new trading account with investors encouraged by the approval for a referendum on constitutional reform and further consideration of the new fiscal incentives for the stock market.

The Comit index rose 6.31 to 484.93 in hefty turnover which proved too much for the tele-matic continuous trading board, which ceased to operate an hour before the official close.

Industrials led the advance with Fiat up by L151 to L4,990 before a further rally to L4,990 in after-hours trading.

Telecommunications were also firm with Stet adding to Friday's advance. The shares rose by L8 to L2,093, and L2,120 in after-hours trading.

BRUSSELS saw volatile trading in Arbed which rose to the day's high of BF2,140 after

breaching the BF1,900 resistance level before closing at BF1,935 at BF1,955. The Bel-20 index lost 3.96 to 1,140.59 in turnover of BF1,2m.

COPENHAGEN welcomed reports that a new government would be formed soon and the KFX index rose 3.66 or 4.8 per cent to 79.63 in turnover of DK359m.

STOCKHOLM saw strong activity in the banking sector help lift the Affarsvärlden General index by 6.8 to 333.8 in turnover of SK678m.

Among the banks, Handelsbanken's A shares gained SK6.50 to SK43.50. OSLO also firmed slightly on stronger oil prices and the composite index finished 1.49 higher at 886.53 in turnover of NK132.6m.

VIENTIANA improved with the ATK index closing 7.03 higher at 719.08. Leykam, the paper manufacturer, rose Sch9 to Sch231 on news late last week that it had established a joint venture in the Czech republic.

ISTANBUL declined in late trading and the 75-market index closed 68.67 lower at 4,017.16.

ASIA PACIFIC

Nikkei improves in wake of government bonds rally

Tokyo

A RALLY in government bonds boosted the stock futures market, and share prices closed higher with the support of arbitrage buying, writes Emiko Terazono in Tokyo.

The Nikkei average ended 101.84 up at 16,517.24 on index-linked buying. Purchases by public funds supported the index in early trading; it fell later to a day's low of 16,502.26 on selling by investment trusts, but registered a high of 16,625.26 just before the close.

Volume decreased to 140m shares from Thursday's 170m. Traders said investors remained on the sidelines after Friday's national holiday.

In spite of the rise in the Nikkei, other indicators reflected underlying weakness. Declines outnumbered advances by 486 to 379, with 218 issues

unchanged, and the Topix index of all first section stocks edged down 0.84 to 1,267.07. In London, the ISE/Nikkei 50 index was off 0.11 at 1,032.05.

Reports of the US missile attack on Iraq had little impact on the Tokyo market. "Japanese shares will not be affected unless there is drastic reaction on other overseas markets," commented an analyst at Nikko Securities.

Arbitrageurs sought shares as the futures market was buoyed by hopes of lower interest rates. Yields on the No 145 10-year government bond fell below 4.4 per cent for the first time since April 1988, as bond market participants were encouraged by the Ministry of Finance's outright purchase of bonds.

Large-capital shares were actively traded by institutional investors, who cross-traded holdings to realise profits. Nippon Steel, the most active issue

of the day, firmed Y2 to Y288, while Mitsubishi Heavy gained Y1 at Y515.

Video game makers fell on concern over allegations that video games had caused epileptic seizures among children. Sega Enterprises declined for the fourth consecutive day, ending Y90 lower at Y9,890, while Nintendo shed Y100 to Y10,400 on the Osaka stock exchange.

Electronics issues were mixed, with Sony up Y70 to Y4,130 and Matsushita Electric Industrial ahead Y10 at Y1,110 on hopes regarding the expected economic recovery in the US. Toshiba slipped Y7 to Y907, weighed down by profit-taking.

Sumitomo Electric Industries put on Y3 at Y808 on short-term buying by individuals on reports that the company's joint venture had developed a substance to reproduce hair roots.

In Osaka, the OSE average

edged forward 0.52 to 18,052.28 in volume of 53m shares.

Roundup

PACIFIC RIM markets were mostly firmer yesterday. HONG KONG saw late buying of blue chips by overseas institutions which helped to reverse an early decline. The Hang Seng index ended 10.22 higher at 5,882.02.

Turnover fell to HK\$2.44bn from Friday's HK\$3.06bn, with investors restrained by continuing uncertainties about the Sino-British dispute over Governor Chris Patten's democratic reform package and US president-elect Bill Clinton's China policy.

Demand from Chinese companies took Sun Hung Kai Properties 10 cents ahead to HK\$28.80 and Jardine Matheson moved 50 cents higher to HK\$46.75.

AUSTRALIA saw a modicum

of overseas interest and the All Ordinaries index appreciated 4.4 to 1,528.8 in turnover of AS\$76.72m.

A 16 cent rise to AS\$13.28 by BHP was attributed to reassuring comments from the Papua New Guinea government about the future of the Kutubu oil field, in which BHP has a 9.5 per cent stake.

SINGAPORE held mostly steady, but Malaysian stocks traded over the counter saw choppy early trade after reports that Malaysia's hereditary rulers had rejected proposed amendments to take away their immunity from the law. Later it emerged that a compromise was likely to be reached. The Straits Times Industrial index gained 4.6 at 1,577 in turnover of 88.8ms shares.

KUALA LUMPUR moved erratically before closing on a higher note which saw the composite index up by 6.38 at

624.37. Multi-Purpose Holdings advanced 23 cents to M\$1.83 in active trading after an unconfirmed report that a Chinese city was in the allowed to hold a weekly lottery.

SEOUL ended slightly firmer as buying, centred on large capitalisation shares, outweighed some afternoon profit-taking. The composite index moved up 1.92 to 633.23 in turnover of Won529.61bn.

MANILA slipped in reaction to news that the government intends to break up Philippine Long Distance Telephone's monopoly. The composite index declined 5.90 to 1,306.65. PLDT's share price, which ranged from 905 to 890 pesos most of last week, fell to 870.

BOMBAY rose on sustained buying triggered by a belief that weekend changes in Prime Minister P.V. Narasimha Rao's cabinet would spur India's economic reforms. The BSE index finished up 60.51 at 2,588.05.

Italy and Spain attract strong interest

MARKETS IN PERSPECTIVE									
	1 Week	4 Weeks	1 Year	Start of 1992	Start of 1993	% change starting 1	% change starting 1	% change starting 1	% change starting 1
Austria	-2.56	+0.75	-20.32	-5.60	-7.40	-8.42			
Belgium	-0.43	+1.96	-3.69	+1.17	-0.94	+0.11			
Denmark	-2.67	-1.84	-26.91	+0.64	-0.74	+0.31			
Finland	-1.50	+7.08	+2.82	+7.50	+3.32	+4.41			
France	-0.93	+3.98	-1.96	-0.70	-1.73	-0.70			
Germany	-0.86	+3.50	-0.25	+0.21	-1.51	-0.77			
Ireland	-3.09	+2.93	-18.81	+3.53	+2.10	+3.17			
Italy	+6.51	+16.29	-6.73	+6.22	+6.07	-7.18			
Netherlands	-0.22	+1.82	+1.08	+0.86	-1.13	-0.08			
Norway	-1.34	+1.71	-15.38	+3.45	+2.81	+3.90			
Spain	+4.66	+6.41	-10.01	+7.53	+5.28	+5.37			
Sweden	-2.81	+1.77	+10.83	+0.07	-3.69	-2.68			
Switzerland	+1.47	+3.37	-1.40	+0.79	-1.37	-1.37			
UK	-1.28	-0.36	+10.21	-2.33	-2.33	-1.31			
EUROPE	-0.16	+2.24	+1.82	-0.24	-1.44	-0.40			
Australia	+1.00	+0.10	-11.38	-2.07	-5.02	-4.02			
Hong Kong	+5.55	+12.11	+29.73	+6.04	+4.97	+6.06			
Japan	-1.84	-5.85	-20.77	-3.11	-6.08	-4.08			
Malaysia	-1.23	-2.83	+13.64	-2.67	-3.03	-2.01			
New Zealand	-0.99	+0.35	-6.27	-3.16	-4.21	-3.22			
Singapore	-1.22	+2.26	-4.06	-0.33	-2.41	-1.38			
Canada	+0.15	-1.18	-10.94	-1.38	-3.22	-2.21			
USA	+1.86	-0.77	+4.09	+0.33	-0.72	+0.33			
Mexico	-3.63	+2.11	+11.55	-0.17	-0.67	+0.16			
South Africa	+0.66	+6.19	-11.84	+4.86	+4.50	+5.50			
WORLD INDEX	+0.41	-1.11	-4.27	-0.66	-2.00	-0.87			

1 Based on January 1992. Copyright, The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited.

By John Pitt

Measures to boost popular share ownership in Italy and renewed foreign investment interest in Spain saw these two markets outperform the rest of Europe last week.

But weakness in Denmark, upset by the resignation of Prime Minister Poul Schluter over the 'Tamligate' affair, and Ireland, still fighting pressure to devalue the punt, helped to take the European component of the FT-A World Index into negative territory.

Spain has enjoyed a traditionally good start to the year, with hopes of an easing in interest rates throughout the Continent helping to improve confidence.

Mr Victor Galliano, Spanish analyst at Baring Securities, comments that many investors are beginning to look to invest outside the hard currency markets and see Spain as a good opportunity.

Inflation data which came in slightly under expectations year-on-year also gave a boost

to the market, and Mr Galliano believes that the general index could reach a short term high of 250.

The Italian market began to improve early in the week, ahead of Friday's decision by the government to allow investors a 27 per cent tax break in newly quoted companies and the opportunity to swap holdings in government bonds for privatised shares.

Elsewhere, Hong Kong had a good week with a 5.5 per cent gain. Mr David Bates, of Asia Equity in London, ascribes this to suggestions that secret negotiations are being held between Chinese and UK officials to resolve the conflict over plans for political reforms in the colony. Reports that Governor Chris Patten has softened some of these proposals has also helped sentiment, he says.

Among the Latin American markets, Mexico weakened 3.6 per cent in local currency terms, partly in reaction to Wednesday's allied air attack on Iraq which caused slight falls among many of the world's markets.

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THE EUROPEAN SINGLE MARKET

SECTION III

Tuesday January 19 1993

THE European Community's single market, born at the start of this year, is an old idea, superimposed upon a continent jolted into several new directions at once.

Allowing goods, people, services and capital to flow around an area accounting for about one quarter of world economic output marks a giant step forward for the EC. Breaking down Europe's barriers fulfils the concept set out in the 1957 Treaty of Rome of forming a genuine common market.

The single market programme is enshrined in the Single European Act, which came into effect in 1987. Launching measures with the effect of increasing competition and building a more homogeneous EC business environment has already produced some harsh effects - not least in contributing to plant closures and layoffs as companies try to concentrate their EC operations in the most efficient or low-cost centres.

The programme as a whole, however, is a recipe for growth. European industry as a whole faces a grave problem of deteriorating international competitiveness - particularly in comparison with the newly industrialising countries of the Pacific rim, which have been making large inroads into EC markets.

As part of a strategy of overcoming this drawback, European governments and legislators have accomplished a victory of Community-mindedness over national interests and have put into place a powerful springboard to help cope with the economic challenges of the 1990s.

Some important areas are still to be dealt with, for instance in energy, telecommunications and transport. An imperfect solution has been found over the vexed question of creating a unified system for collecting value added tax across the continent.

Additionally, partly because of controversy over immigration pressures - touched off by the conflict in former Yugoslavia, as well as upheaval elsewhere in the world - some controls remain in force on people crossing EC borders, particularly at airports. None the less, roughly 96 per cent of the liberalisation measures outlined in 1985 have been established as EC legislation, extending to the main fields of industry, public procurement and financial services.

The Community seems unlikely to embark upon a new phase of large-scale legislation to clear up exemptions. But it has set itself a goal during the next few years not only of completing the single market agenda, but also of making it work.

The EC now has a market-place. There is a long way to go, however, before we have a single Europe. The ructions during 1993 over the Maastricht treaty underlined that consensus is far from complete on future political and economic integration.

The road to economic and monetary union (Emu) - which many top European politicians, though not quite so many leading businessmen - have always regarded as essential for bringing the single market to maturity - is now strewn with more obstacles than seemed apparent a year ago.

After the autumn exchange rate turbulence, a large question mark also hangs over the future of the European monetary system.

Yet, the single market process of harmonising regulations and laws on products, trade, traffic and people has placed



A leap across fallen barriers

The single market is not a panacea for the problems of Europe. But with the right policies, hope will be restored in the east and in the west. David Marsh reports

The EC firmly on the road to supranationalism. Neither the Single European Act nor Maastricht sets down a blueprint for a federal European state. But member countries now recognise that a formal renunciation of sovereignty in important areas once held to be the prerogative of nation-states, and a pooling of resources and powers, can maximise benefits for all.

The single market's period of gestation has coincided, in the east of the continent, with the death of communism. But capitalism's triumph is by no means unmitigated. After the excitement and euphoria generated by the breakdown of the east-west

divide and the ending of the cold war, Europe is weathering a phase of dourness and doubt. Last year's controversies over Maastricht exposed a disquieting gap between politicians and voters over the speed and direction of European development.

The swing to fringe extremist parties in many countries during the past 12 months is a symptom of some deeper pressures - among others, mounting unemployment, now standing at around 10m throughout the EC.

Europe's task for 1993 is thus to show it can successfully manage a highly difficult

period of transition. There are three immediate challenges. First, businesses and individuals have to show they can maximise the chances offered by the single market, in spite of the most severe economic downturn for 10 years in western Europe, and a deep restructuring crisis in the east.

Placing the rules of the single market on to the statute book was difficult, but making them work will be more onerous still. The EC will also have to ensure fair and equitable enforcement.

Second, the EC has to progress towards the goal of a wider Europe. The Community's decision at the Edinburgh summit to

start EC entry negotiations this month with Austria, Finland and Sweden, reversing the previous agreement to wait for ratification of Maastricht in all 12 states, is an encouraging sign that the momentum of enlargement can be maintained.

The rejection last month by Switzerland - the EC's second most important trading partner, after the US - of the plan for a free trade area between the EC and the European Free Trade Association (EFTA) was a blow, but not a disaster.

The EC's single market encompasses 344m people. The European Economic Area, which will now come into effect in

the second half of the year, about six months later than planned, will unite a population of 370m people, including all the other six EFTA states apart from Switzerland. The three EFTA states starting accession negotiations this month may join by 1996.

The third challenge concerns the east of the continent. Even on the most optimistic assumptions, the former communist countries of eastern and central Europe will have to wait beyond the year 2000 until they can join the EC.

In partnership with the new administration in Washington, the EC will have to redouble efforts to prevent chaos across the former communist bloc from sparking off more generalised disruption in Europe. In 1992, the EC's inability to stop, or even significantly influence, the war in former Yugoslavia painfully illustrated the limits of the EC's fledgling foreign policy. In 1993, the difficulties caused by economic dislocation and political fragmentation in the east could become still worse if the European economy slides into full-scale recession.

The economic clouds over the continent are all the more disquieting because, in theory at least, the approach of the single market should have blown them away. When EC governments negotiated the concept in 1985, the single market programme was viewed as a sizeable boost to trade and investment.

An optimistic report published in 1986 under the aegis of Mr Paolo Cecchini, a senior Commission official, forecast that the single market would increase EC gross national product by 4.5 per cent over the medium term. It would also, according to the report's conclusions, dampen inflation, improve countries' budget positions, lower external deficits and create 1.8m new jobs over the longer term.

Anticipation of the single market undoubtedly speeded up trade and investment during the second half of the 1980s, illustrated particularly by a spate of cross-border acquisitions and mergers. Growth was also accelerated by the boom in Germany in 1989-91 caused first by the collapse of the Berlin Wall and then by reunification.

EC experts now reckon that 30 per cent of the forecast effect of the single market programme may already have worked its way through to the European economy. The fillip to western growth at the end of the 1980s explains why many of the controversial proposals of the Single European Act - in contrast to those in the Maastricht treaty - did not attract undue opposition in parliaments and public opinion.

The economic expansion in the late 1980s also helps explain why the EC, shrugging off a decade of drift after the first oil crisis in 1973, suddenly became a burning source of hope and prosperity for the eastern half of the continent. Now, however, high German interest rates and the post-unification difficulties faced by the German economy have thrown a pall over the landscape.

With the dissipation of the positive economic effects of the late 1980s, the EC - and those outside who see it as a beacon of light in a dark world - have had to scale down their expectations for the 1990s.

The single market is not a panacea for Europe's problems. Yet, if governments adopt the right policies to end the recession, it provides the best route towards stability and prosperity later in the 1990s - for both halves of the continent.

David Marsh tries to dispel some of the more alarming anxieties about life in the new Europe

Fishermen need not wear hairnets

ASSERTION: A Commission directive will oblige fishermen to wear hairnets aboard their boats.

FACT: Untrue. A Council directive, which took effect on January 1 1993, aims at ensuring strict hygiene conditions in fish-processing plants. Dock-side staff who cut fish will have to wear suitable head cover to avoid contaminating fish. This does not mean hairnets. It does not apply to fishermen on boats, with the exception of workers on factory vessels.

ASSERTION: Firemen will have to adopt new uniforms to conform with EC safety rules.

FACT: From January 1 1993, "personal protective equipment" must satisfy common safety requirements under a December 1989 Council directive. This includes firemen's uniforms and hats. All products marketed after 1993 will have to include an EC conformity mark.

ASSERTION: EC regulations require Christmas trees to be symmetrical in shape, with regularly spaced needles.

FACT: Untrue. No EC regulations on standardised Christmas trees. The Christmas Tree Growing Association of western Europe has, however, drawn up European specifications to try to aid marketing.

ASSERTION: EC regulations forbid the marketing of a

favourite Danish apple, the Ingrid Marie.

FACT: For the purpose of freedom of movement and consumer protection, EC apples are classified into two categories - "small", with a minimum diameter of 55mm, and "large", with a diameter exceeding 65mm. In July 1989 the Danish fruit growers' association classified the Ingrid Marie as "large". However, since half the harvest did not reach the required size, the apples could not be marketed normally, and had to be sold to the processing industry. There are two solutions: to introduce a new "medium-sized" category - which could increase administration costs - or to reclassify the Ingrid Marie as "small".

ASSERTION: The Commission wants to outlaw the dye which gives smoked haddock its distinctive golden hue.

FACT: Untrue. More than 30 colours are provided for in the Commission's proposals for a Council directive for colours used for foodstuffs - including those used for haddock.

ASSERTION: The European

parliament wants to stop skiing when snow is not deep enough.

FACT: The parliament adopted in June 1991 a resolution to preserve the ecological balance in Alpine areas, proposing restrictions on ski runs where snow is less than 30 cm deep. The Council has not followed up these recommendations.

ASSERTION: Britain's Essex coast will face an invasion of cockle fishing boats this year.

FACT: On January 1, existing UK public health requirements on molluscs were replaced by new EC requirements (Directive 91/493/EEC, L 286). This means that cockles from certain parts of the Thames estuary will no longer have to be processed in a particular plant in Leigh-on-Sea. But foreign fishing boats which want to catch UK cockles are still subject to Sea Fisheries Committee byelaws.

ASSERTION: An EC food hygiene directive will force street vendors and cafes to close.

FACT: A general food hygiene directive is under discussion in the Community.

NICE TO SEE SOMEBODY WHO'S READY FOR THE SINGLE MARKET



The proposal is broadly similar to provisions already in UK law. Detailed guidance will be left to voluntary codes of industry practice, to be drawn up in consultation with producers, retailers and consumers.

ASSERTION: Charity shops are banned from selling second-hand toys as a result of EC toy safety directive.

FACT: According to Directive 88/378/EEC on the

Safety of Toys, in force since January 1 1990, all toys placed on the Community market for the first time must bear the CE safety mark. This applies to new toys sold in charity shops - but not to second-hand toys.

ASSERTION: Under new EC legislation, there will be a reversal of "burden of proof", meaning that lifeboat teams and mountain accident services could be sued for negligence by people they try to rescue.

FACT: A proposed directive on liability of suppliers of services intends to make a provider of services responsible for proving that everything possible is done to assure safety of the consumer. This covers sea and mountain rescue services. But proposals make specific reference to the notion of "legitimate expectation". So the person rescued cannot in practice hold rescue services responsible for injuries sustained.

ASSERTION: An EC directive on health rules unfairly discriminates against French soft cheeses.

FACT: The Council adopted in June 1992 a directive on

health rules for production and marketing of raw milk, heat-treated milk and milk-based products. It will come into effect on January 1 1994. As far as soft cheeses are concerned, it will ensure that milk used comes from animals and stocks which satisfy health and hygiene requirements.

Cheeses produced should comply with specified microbiological criteria (checks for listeria, salmonella, escherichia coli etc.) Products failing to conform may be withdrawn.

ASSERTION: The Royal Navy will have to end its tradition of stirring Christmas pudding mixtures with wooden oars, on account of a new EC hygiene regulation.

FACT: Untrue. The framework directive on materials in contact with foodstuffs (89/109/CEE - L40) merely states that such materials should not "transfer their constituents to foodstuffs in quantities which could endanger human health or bring about an unacceptable change in the composition of the foodstuffs".

ASSERTION: EC regulations are forcing butchers' shops to close.

FACT: Untrue. New rules on handling of fresh meat apply only to slaughterhouses, processing plants, storage facilities and warehouses, not to retail premises.

ASSERTION: A draft directive states that Euro-furniture shall not be made of European oak because it is too knotty. German and Italian carvies will be favoured because they have fewer knots.

FACT: There is no such draft directive. Two long-standing pieces of legislation on marketing of certain seeds, such as oak, set up quality conditions. The UK has complained in the past that oak many seeds from British oaks are recognised as eligible for planting in other EC countries.

ASSERTION: Youngsters will have to give up newspaper delivery rounds if the EC directive on protection of young people of work is adopted.

FACT: Untrue. Young people in full time education are restricted to 15 hours a week and three hours a day for light jobs, but will still be able to do paper rounds. Work must take place outside official school hours. Must generally be between 8 am and 8 pm - although exceptions are allowed.

ON OTHER PAGES

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THE EUROPEAN SINGLE MARKET 2

Enforcing the new legislation will provide the real test, writes Lionel Barber

Now comes the hard part



The European Parliament, Strasbourg: plenty of voices will be calling for the outstanding gaps to be filled

AFTER pushing dozens of new laws through their national parliaments, EC member states must now live up to their promises and make the European single market work.

One word is likely to dominate debate on the single market in 1993: enforcement. Striking the correct balance between the supervisory role of member states and the European Commission will not be easy, but it is vital if cross-border disputes about implementation are to be avoided and confidence in the single market is to be retained.

The task is daunting. Rhetoric in Brussels about the irreversible common destiny of EC member states often minimises the deep-rooted diversity. Just as there is an obvious "top tier" of strong economies in northern Europe built around Germany, so too there will be a "lower tier" of countries lag-

ging on enforcement standards - particularly in the sensitive area of public procurement where the temptation to protect national companies will be formidable.

The signs already point in this direction. Although 95 per cent of the single market programme set out in the original white paper were complete by the end of 1992, less than half of it was expected to be transposed into national law of all 12 member states, according to a report by the committee on economic, monetary and industrial affairs of the European Parliament.

Denmark, often accused of being the Community troublemaker after its rejection of the Maastricht treaty, has the best track-record on transposition. Moreover, there are important gaps in implementation in areas such as dual-use technology which can have military

application, explosives, works of art and meat goods. Nor are companies likely to be ready to adjust to the new rules covering VAT collection.

Mr Ben Patterson, the Conservative MEP who authored the above report, is flush with examples of foot-dragging in common professional standards: Greek engineers trained in Germany whose qualifications are not recognised back home; British airline pilots who, having worked for a private German airline, cannot get permanent jobs; and a failure to reach agreement on general recognition of higher education diplomas.

The most serious work to date on enforcement is the report drawn up by Mr Peter Sutherland, the former EC Commissioner responsible for competition policy, who chaired a high-level group on implementation last year.

The 60-page study makes numerous practical suggestions aimed at making the single market fairer, more consumer-friendly, more open and more efficient in terms of streamlining its laws. Among its chief recommendations are:

- A "deeper partnership" between the European Commission and member states aimed at exchanging information, mainly through officials working on an informal basis;
- Provision by states and Brussels of informal advice on redress for breaches of EC law to those requesting it. Plus an ombudsman at EC level or in each member state;
- Systematic consolidation of EC law and creation of a legislative co-ordination unit inside the Commission to prevent overlap;
- A better understanding and use of EC law, including possible compulsory courses for

judges and a new communications campaign to make sure EC citizens are aware of their legal rights.

The Sutherland report was influenced heavily by the debate within the Community on "subsidiarity" - devolving decision-making to the lowest appropriate level - which erupted in the wake of the Danes' rejection of the Maastricht treaty.

Some critics have wondered whether Mr Sutherland pulled some of his enforcement punches. His panel's rejection, at this stage, of a central clearing house to collect data on infringement of the single market, for example, may reflect fears of a new Brussels bureaucracy policing cross-border trade, but it raises the threat of unsatisfactory trade-offs between countries. "Those who have stronger standards of implementation will lose out," says one EC official.

The UK, the driving force behind subsidiarity, is anxious that the Commission does not turn into a shrinking violet. This is not so much a political volte face: more a hard-headed calculation that if cross-border disputes flare up, the Commission is well placed to act as arbiter rather than hounding the European Court with dozens of legal cases.

Thus, a recent UK draft proposes a permanent Commission inspectorate to monitor selectively member states' performance, and a Commission review which "where necessary" may go to the relevant Council of Ministers. "The logic of the internal market demands satisfactory arrangements for its joint management by the Commission and the national administrations," says the report.

As the Commission's response to both the Sutherland and the UK report made clear, much will depend on strengthening the

Much will depend on strengthening the co-operation between Brussels and member states

machinery for co-operation between Brussels and member states. Proposals include a new training policy for officials in enforcement, new computer networks to speed up the flow of data on the operation of the internal market, and more efficient management of the customs union.

These are the challenges facing those struggling to keep the playing field level in the single market; but it is clear that plenty of voices will be calling for the outstanding gaps to be filled.

Mr Patterson is convinced that there are sufficient uncovered areas to warrant production of a new Commission white paper. "In addition, there will be a need to deal with the new barriers to free movement which changing technology and the ingenuity of protectionist forces will create."

The converse argument is that some forces - such as organised crime - may be so adept at freedom of movement of goods and capital that calls for releasing some controls may prove irresistible. But for the moment, the forces of integration are firmly in the saddle as the race to take advantage of the single market enters the home stretch.

Interview: Lord Cockfield, market mastermind

It really worked

LORD COCKFIELD, the crusty British peer who was European commissioner for the internal market from 1984 to 1988, is in the satisfying position of seeing a vision turned into reality.

"The single market is almost exactly as envisaged," he says, "except for minor flaws, such as the remaining frontier controls over people, and the fact that the financial sector reforms are not as liberal as I would have liked."

Lord Cockfield's stint in Brussels coincided with a number of milestones in the single market process. His highest achievement was the 1985 European Commission White Paper and its nearly 300 legislative proposals setting out the framework for the market.

His great strength, according to observers at the time, was writing the paper in a way which gave national politicians a clear and logical blueprint for building the market. His experience as a commissioner of Inland Revenue in Britain gave him the ability to find ways through thorny and highly technical tax issues requiring unanimous agreement by all 12 member states.

As a salesman for the programme, however, Lord Cockfield was less adept. He rarely ventured forth to national capitals to lobby ministers, preferring instead to stay in Brussels and to make his points at Council meetings.

He did, however, ask Mr Paolo Cecchini, a senior Commission official, to oversee the compilation of what became the landmark report on the proposed market. It stands as one of the largest pieces of market research ever conducted. Especially in view of its rosy economic forecasts and commercial scenarios, many economists came to view it mainly as a propaganda exercise to sell the White Paper proposals. But the report, published in 1988, set off a flurry of corporate strategic reviews.

The economic buoyancy of 1986-90 - when EC economies registered average annual growth rates of 3.2 per cent - made it easier for politicians to accept those parts of the programme curbing national monopolies or initiating painful industrial restructuring. "An economic downturn three



Lord Cockfield: 'The single market is almost exactly as envisaged'

or four years ago and it could have been another story," he concedes.

A former trade secretary in Mrs Thatcher's government in the early 1980s, Lord Cockfield shied away from harmonisation of standards as the main way of overcoming national regulatory differences in European industries, favouring

ROBERT CORZINE meets Lord Cockfield, architect of the EC single market

instead mutual recognition and market-oriented solutions. His belief in the power of market forces is undiminished, as is his conviction that the imperfections in today's market will soon disappear. "Once we get rid of frontier controls and major nationalistic impulses, such as public procurement, then the forces of trade and the market will wash away the remaining barriers," he says. However, he does not make light of the challenges in making the market work. "The single market is in the bag. But we may have to deal with new barriers."

Lord Cockfield is a harsh critic of British government policy towards the European

Community in general, and the single market in particular. He takes issue with politicians who promote the single market as an alternative to the far wider concept of European economic and political union.

"The UK government had little real understanding of what the single market meant," he says. "The original concept was that the single market would be the foundation on which we would build economic unity... the market is not the end of the road, but a road that leads somewhere, to economic union. It's just a pity that the economic agenda was not completed before work began on political union."

He says that the objective of a single European currency was enshrined for the first time in the Single European Act. He regrets the emotions surrounding the currency issue - one of the most controversial points in the debate over the Maastricht treaty. "The single market is an enormous benefit and the single currency would have produced a large add-on benefit." In view of the difficulties of keeping to the Maastricht monetary union timetable, he believes there is a good chance that Europe's single currency will turn out to be not the Ecu, but the D-Mark.

Goods will move more freely than people, writes Andrew Hill

Hang on to your passports

DON'T throw away your passport. For the EC traveller, the barrier-free European market has not quite arrived.

The lifting of frontier controls on goods and people was perhaps the most symbolic goal of the single market programme.

However, for six months or more it has been obvious that at least one, possibly three, and perhaps all 12 member states will not achieve the second of those objectives before the end of 1993.

Member states appear to have met the deadline for lifting frontier controls on goods. For all its alleged faults, the new "transitional" regime for VAT and excise duty has done away with the need for basic administrative border controls on all products. Some 60m tax forms, and the people who used to fill them in, have gone too.

On the other hand, there are lingering doubts about how a new frontier-free regime will affect certain products. In the case of bananas, for example, member states have just agreed a new quota regime, but it is unlikely to come into force for at least six months. There is as yet no definitive system for monitoring the cross-border movement of works of art or of "dual-use" goods, which have both military and civilian applications. The most likely solution is a formal or informal "cellule de crise" to deal with any problems which might occur between January 1, and the implementation of a new regime.

Officials agree it is little more than a sticking plaster solution, but it has allowed frontier controls on goods to be lifted before the January 1 deadline. If member states keep their nerve - and do not allow the inevitable media scares about loopholes and errors to shake them into a hasty reimposition of controls - then free movement of goods seems more or less assured.

The abolition of passport controls presents quite different problems, which are unlikely to be resolved before the end of this year, if at all. Nine months ago, the Community seemed to divide into three main camps on the question of passport checks. Britain has always been the



member state most vehemently opposed to the lifting of border controls on people and its government's argument is relatively simple.

The 1986 Single European Act, it says, does not oblige the UK to lift its controls on non-EC citizens. Consequently, Britain must maintain at least a minimal check to ensure that unwanted non-EC travellers do not slip through the EC passport lane at ports and airports.

In the second camp are Denmark and Ireland. Denmark wants to maintain border controls, but has indicated in the past it might be prepared to lift them if sufficient safeguards are put in place. Ireland claims to be committed to the lifting of controls. But because of its geographical proximity to Britain, and the fact that most of its travellers pass through the UK under an existing free-travel agreement, it would find it difficult to loosen its controls without at least consulting the UK.

Finally, the European Commission and the remaining nine EC countries, which are members of the Schengen free-travel agreement, dispute the British interpretation of the Single European Act and are committed to the lifting of border controls on people. Until recently, it looked as

though the dispute between the Commission and the British government might end in the European Court. An individual court case - perhaps brought by a federalist MEP or ordinary free-travel zealot - is still not out of the question, but in the past six to nine months, a number of new elements have reduced the immediate threat of Commission court action.

• Euro-politics. Since the Danish and French referendums on the Maastricht treaty, Brussels has been increasingly reluctant to challenge member states on strongly held points of principle. Mr Kenneth Clarke, British home secretary, warned fellow EC interior ministers in June that pressuring Britain on passport controls could swing the UK parliament against the Maastricht treaty.

It was a potent argument, according to observers. • The refugee problem. Increasing immigration pressures and racial tension, particularly in Germany, have made the Schengen nine think twice about lifting their internal border controls as quickly as they had intended. The Schengen accord does commit them to abolish internal frontiers, but only when external frontiers have been sufficiently strengthened, and ancillary

measures - such as a computer link between Schengen immigration authorities - have been put in place. Neither has yet happened.

• Practical difficulties. Airports - most notably the busy Schiphol hub in Amsterdam - have won a deadline for the deadline for lifting controls, on the grounds that they cannot physically change their infrastructure before December this year to separate EC and non-EC arrivals.

The result is that even the most enthusiastic countries are unlikely to lift their internal border controls on people before the middle of this year. Travellers in continental Europe will probably notice little change - cars will still be able to sweep through most internal borders without checks; airports will still check passports, although controls may get lighter as terminal infrastructure is adapted to cope with the new regime.

Britain, on the other hand, is planning to retain its controls at airports and sea borders unchanged until Schengen decides to abolish its internal checks.

When that happens, UK seaports will probably implement a version of the so-called "Bangemann wave" - named after the current internal market commissioner - requiring EC travellers to show the cover of their passport to officials.

Schengen's disarray on border controls let Britain off the hook as far as the January 1 deadline was concerned, but it seems unlikely that an eventual "two-speed" solution to the question of passport checks will be acceptable to all continental European countries. According to Schengen, the Bangemann wave is too strict as a control on internal borders and too lax as a control on external frontiers.

If Britain - or, indeed, Ireland and Denmark - decides to apply only minimal checks to travellers arriving from outside the Community then Schengen members may have to start examining the passports of passengers on flights and ferries from non-Schengen EC partners. That would be a strange and unhappy and to a project that was supposed to be built on mutual trust and partnership.

RECENT LANDMARK EUROPEAN COMMUNITY COMPETITION RULINGS

DATE	CASE	SIGNIFICANCE
18.12.1990	ICI and Solvay fined Ecu47m for alleged soda ash cartel	At the time, the largest ever fine imposed by the European Commission
19.3.1991	European Court upholds Commission's right to use Article 90 of Treaty of Rome to liberalise the telecommunications equipment market	Confirmed Brussels' ability to challenge national monopolies without seeking prior approval of EC member states
24.7.1991	Tetra Pak fined Ecu75m for alleged abuse of its dominant position in the market for cartons and liquid packaging machinery	Currently the largest fine ever levied by the Commission
2.10.1991	Commission vetoes Aerospaciale and Alenia's attempt to take over de Havilland, Canadian aircraft maker	The first and only case yet blocked under the September 1980 EC merger regulation
22.7.1992	Nestlé bid for Perrier cleared on condition that brands are given up to a "third force" on the French mineral water market	Established for the first time that the EC merger task force will take into account the impact of duopolies and oligopolies on the market

Decisions still subject to appeal ruling in the European Court of Justice

Andrew Hill on the role of the new competition commissioner

A socialist's dilemma

ers within set deadlines, and outlaw or amend deals. In fact, only one deal has been blocked outright since the regulation came into force 2½ years ago - the Franco-Italian bid for de Havilland, the Canadian aircraft manufacturer, which, as transport commissioner, Mr Van Miert supported.

As competition supremo, Mr

Van Miert will have to decide whether the threshold for examining deals under the regulation should be lowered, as favoured by Sir Leon and by the Commission's own merger task force. He will also grapple with the controversial question of how to define the market for each merger, and whether to allow European champions to

develop in line with the growth of the single market.

Articles 85 and 86 of the original EC treaty, which are aimed at preventing cartels, price-fixing and abuse of a company's dominant position. In the last months of his tenure, Sir Leon pledged to introduce new internally-binding deadlines for such cases, which

frequently take a year or more to complete. If Mr Van Miert backs the Brittan reforms, he will have to try to persuade reluctant competition officials that such deadlines are feasible and necessary and ensure they are implemented. At the same time, he inherits a commitment to devote responsibility for smaller anti-trust cases to

national authorities - but without allowing overall competition policy to be distorted.

Article 90 of the EC treaty, which gives the Commission the right to issue directives breaking open public monopolies without first having to gain member state approval. That right was affirmed by the European Court in 1991, but since then even Sir Leon has fought shy of using it, although he has threatened it many times against energy, postal and telecommunications monopolies. This would be one way of opening up some of the most difficult outstanding areas of the single market. But it would also be a last resort option. If Mr Van Miert chose to use it, he could alienate those member states - notably France - which were happiest with his appointment.

State subsidies. This is probably the area in which Mr Van Miert will face the strongest challenges to his authority, as member states seek to ease their favourite industries into the single market. Sir Leon's advisers claim Mr Van Miert was too soft on state aid to airlines, the supervision of which is still the responsibility of the transport commissioner. But it is impossible to predict from a handful of decisions how he will react to more complex cases which bring

together industrial, social and competition considerations.

An independent EC cartel office. This is not yet part of the Commission's armoury, but the question of whether to create a separate German or British-style competition authority is certain to be posed during Mr Van Miert's tenure. The suggestion was always attacked by Sir Leon, partly on the grounds that it would encourage commissioners to take purely political decisions, whereas under the current system they are bound to consider the implications of their rulings for competition.

In fact, critics suggest that later Sir Leon was himself much too eager to tailor competition policy to short-term political demands: striking creative deals with merging companies, for example, to avoid another row like the one that exploded over de Havilland. Competition lawyers in Brussels, and their corporate clients, say they are seeking the same from Mr Van Miert as they sought - and did not always receive - from his predecessor. They want predictability in the implementation of EC competition policy, enabling business to work confidently within the single market. Mr Van Miert's much-vaunted pragmatism will face a hard test.

el Barber
art

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THE EUROPEAN SINGLE MARKET 4



Winston Churchill (UK). Prime Minister 1940-45, 1951-55. Proposed 'United States of Europe' - without Britain



Jean Monnet (France). First president, European Coal and Steel Community (ECSC) High Authority, 1952-55



Alcide De Gasperi (Italy). Prime Minister, 1945-53. Inspired Italy's post-war moral and material resurgence



Konrad Adenauer (Germany). Chancellor, 1949-1963. Made West Germany a pillar of European integration



Paul-Henri Spaak (Belgium). Foreign minister and prime minister, creative force behind 1957 Treaty of Rome



Robert Schuman (France). Foreign minister, 1948-53. Drove forward Franco-German rapprochement with ECSC

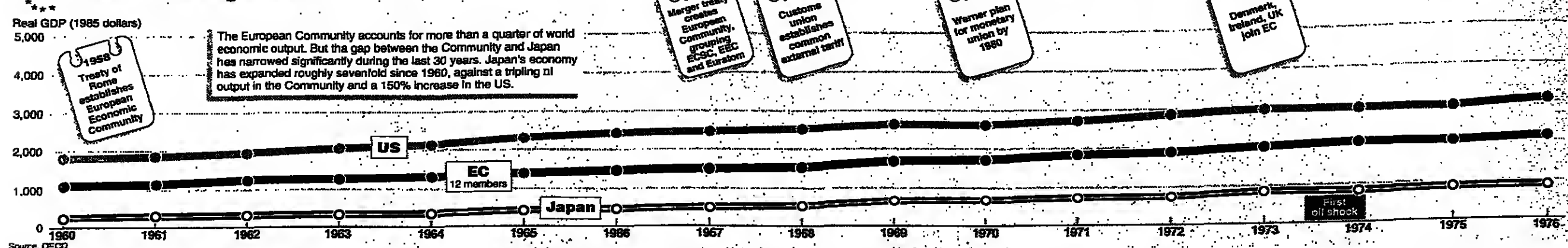


Walter Hallstein (Germany). First European Commission president, 1958-67. Helped to forge the Common Market



Charles de Gaulle (France). President, 1958-69. Propounded 'Europe des Patries' to resist American influence

The road to the single market



IT WAS not supposed to be like this.

The single market is open for business, just as the European economy slows down. Far from heralding renewed economic dynamism, January 1993 coincides with rising unemployment, currency turbulence and popular dissatisfaction. The European Community witnesses not a new burst of confidence and creativity, but a return to the gloom that occasioned the single market programme.

The OECD's latest *Economic Outlook* gives the growth of Europe's real gross domestic product at 1 per cent between 1991 and 1992 and forecasts it at 1.2 per cent between 1992 and 1993.

By contrast, the *Outlook* published last June forecast growth of 2.4 per cent between 1992 and 1993. This halving of the forecast for the coming year is consistent with the past over-optimism of the mainstream forecasters. The economic growth of 2.5 per cent forecast by the OECD for 1993 to 1994 could prove to be yet another overestimate. The European economy would then experience four successive years of disappointing growth.

Economic performance of the main European economies has been far from uniform.

Worst by far has been that of the UK. After falling by 2.2 per cent between 1990 and 1991 and by 1 per cent between 1991 and 1992, GDP is forecast by the OECD to rise by 1.3 per cent between 1992 and 1993. Yet even the expected growth of 2.4 per cent between 1993 and 1994 would only bring GDP back to its 1990 level.

By contrast, Italy is at least expected to sustain positive growth, though at low

rates, throughout. Between 1990 and 1991 growth was 1.4 per cent. This is expected to be followed by 1.2 per cent growth from 1991 to 1992 and 0.8 per cent from 1992 to 1993.

In spite of Italy's fiscal crisis, the most severe among the group of seven leading industrial countries, its economic performance has not been much worse than that of France, even though French *rigueur* has made it the EC's blue-eyed boy. Between 1990 and 1991 French GDP expanded by 1.2 per cent. The OECD says it will expand by 1.9 per cent between 1991 and 1992 and forecasts only 1.6 per cent growth in the following year.

Europe's disappointing economic performance is partly explained by an adverse world economic environment, particularly the lingering recession, from which the US seems at last to be recovering.

It is also explained by problems within particular countries, notably the UK, with its overhang of private sector debt, and Italy, where public debt exceeds total GDP. But the principal failure lies in Germany.

After four years of rapid economic growth, capped by the positive economic effects of unification in 1990 and 1991, German GDP continued to expand by 2.9 per

cent in the first half of 1992, but only to contract by 0.9 per cent in the second half. The OECD has forecast 1.2 per cent growth of GDP between 1992 and 1993, but the organisation's chief economist has already lowered this forecast by half a percentage point.

Surprisingly perhaps, a German recession need not be bad news for the rest of Europe. The German economy has slowed in response to the Bundesbank's determi-

A German recession need not be bad news for the rest of Europe. It could lead to the lower interest rates needed by ERM members

nation to bring inflation down from the 4.5 per cent registered in 1991 (measured by the deflator for total GDP) and expected by the OECD for 1992, to the 2 per cent it thinks is tolerable.

German short term rates of interest have been exceptionally high in both nominal and real terms. But the belief that the D-Mark would never be depreciated within the exchange rate mechanism turns these German interest rates into the floor for all ERM members. Those interest rates have then deflated the economies of the rest of Europe. French short term real interest

rates are 7-8 per cent, for example.

The contractionary effect of these rates has endured far longer and been far stronger than the stimulus generated by the disappearance of the German current account surplus between 1980 and 1991. Europe needs lower short term rates of interest. Though a deep recession is bound to damage Germany politically and economically, it should lead to lower German interest rates and so give members of the

ERM the lower interest rates they need.

By now, this group excludes the UK and Italy, both shaken out of the ERM in mid-September. Apart from the suspension of the pound and the lira, the Spanish peseta has been realigned twice and the Portuguese escudo once, while the Irish punt, the Danish krone and the French franc have all been subject to considerable pressure.

The collapse of Finnish, Swedish and Norwegian attempts at fixing their exchange rates attests to the general disarray. Should the process of dissolution pro-

ceed still further, the Maastricht treaty's planned march towards economic and monetary union by 1997, or 1999, will lose all plausibility.

In any case, the convergence criteria laid down in that treaty, largely at German behest, will create severe difficulties. At present only two countries - France and Luxembourg - fulfil all these criteria, though Denmark (which has opted out from ERM) and Germany (the majority of whose citizens would like to opt out) almost make the grade.

The European slow-down has helped to bring about convergence of inflation: eight EC member states had consumer price inflation of between 2.2 and 4.1 per cent in 1992, with German inflation highest of this group. But slow growth makes it much more difficult to meet the Maastricht criteria for fiscal policy.

The IMF and the OECD argue that most member states cannot afford and should not attempt further fiscal stimulus. This may well be so, but slow growth will make reducing fiscal deficits difficult, while the immediate consequences are bound to be deflationary.

Gloom is the natural reaction to Europe's current economic situation. The single market is not having the positive

effect on Europe's economic performance that was hoped. The monetary system is under attack. Meanwhile, policy-makers seem totally ineffective. The growth package agreed at the Edinburgh summit was nugatory, for example. As for the Bundesbank, it remains obstinately set on its deflationary course.

Yet, there is more to the prospects for the European economy than the current slow down. The important questions are those about the long term. Here there are important worries, but there are also opportunities.

Among the worries are whether Germany will manage to integrate the east German economy or will be struggling semi-permanently with high overall unemployment and high public sector deficits; whether the eastern European economies will achieve rapid economic growth; whether the world economy will recover its lost dynamism; and whether, in particular, the Uruguay Round of multilateral trade negotiations will be successfully completed.

These worries are the counterparts of economic opportunity. German unification should enable the EC's most important economy to achieve faster growth than in the 1970s and 1980s; eastern European reform could revitalise the European economy as a whole; and a dynamic and truly global economy can be created for the very first time.

Since the EC is the world's largest trading entity and one of its two largest economies, accounting for more than a quarter of world output, it is itself able to turn its worries into opportunities.

Martin Wolf weighs up the prospects for united Europe's economic recovery

Latent power to turn the tide

Hans-Peter Fröhlich suggests Germans are too enthusiastic for political union

Emu can go it alone

MANY GERMANS think that the Maastricht treaty that specifies European Monetary Union (Emu) in great detail but is very vague on European Political Union (Epu). This result does not conform to the original German intention: before the Maastricht summit, Chancellor Helmut Kohl insisted on the need for parallel progress on Emu and Epu.

Numerous voices in Germany have recently called for new efforts to complement Emu with Epu. Particular support for Epu comes from many German economists, on the grounds that Emu will not be able to function without it.

This view is based on four main arguments, none of which is truly convincing. It is possible to create Emu without Epu. Furthermore, the creation of the single market may give an additional spur to this beneficial process.

The first of the four arguments for Epu rests on the premise that a single currency provides an additional incentive for government deficits. This is because a single currency removes the inflation and interest rate constraints for public borrowing.

Consequently, the theory goes, fiscal policy must be tightly controlled on a community level - a process which, in the final analysis, requires political union. Otherwise, anti-inflationary monetary policies are likely to be thwarted by fiscal laxity.

Yet, while a single currency does lift some public borrowing constraints, it also creates new ones, because national governments can no longer use the inflation tax to finance deficits. The increasing mobility of capital in a monetary union will at the same time put pressure on governments to project an image of fiscal soundness.

In addition, the Maastricht treaty itself helps to ensure budgetary discipline. One of the criteria for eligibility to join stage three of Emu is that the government deficit must not exceed 3 per cent of GDP. The ratio of public debt to GDP must also be not higher than 60 per cent.

In practice, these criteria may not be "water-tight". But would matters be improved with European political union? There is room for doubt

whether in a political union central authorities really are in a significantly better position to enforce budgetary discipline among the lower tiers of government. Federally structured states, such as the US or Germany, provide numerous examples to the contrary.

The next economic argument in favour of Epu runs like this: a single currency implies that the exchange rate is no longer an economic policy instrument. Under these conditions, asymmetric demand or supply shocks in the Community would lead to large and destabilising fluctuations in output and employment. Since most pain would be felt in the less productive, poorer economies, the richer countries would have to provide financial sup-

port for them. A large-scale horizontal fiscal transfer mechanism, however, would be acceptable to the voters only within an already-unified political entity.

This argument ignores the dynamic effects of economic integration. Monetary union would further increase the mobility of goods and capital in Europe which, as experience shows, tends to benefit the poorer countries most.

Spain and Portugal are cases in point. Since joining the EC in 1986, both have enjoyed growth rates almost twice as high as the rest of the community. The single market, combined with monetary union, may actually reduce the need for fiscal transfers, provided national governments pursue

THE deepening of the European Community brought about by the single market also marks a step towards its enlargement. During the second half of the 1980s, the EC became an attractive magnet for applicants outside its borders. Three members of the European Free Trade Association (Efta) - Austria, Sweden and Finland - are due to start EC entry negotiations during the next few weeks, with a fourth country, Norway, getting down to talks this spring. Their aim is to become full EC members by 1995.

These four states, together with the other three Efta members - Switzerland, Iceland and Liechtenstein - were due from January 1 to have formed with the EC the European Economic Area (EEA) - a free trade entity seen now as encompassing a waiting room for full EC membership.

The start of the EEA has been delayed until the second half of the year. This follows Switzerland's referendum rejection of the EEA last month - a decision motivated by Swiss voters' fears that the EEA would bring a dilution of their prosperity and stability. Assuming the other Efta states go ahead with ratification, the EEA will now link only 18 states, rather than the 19 (including Switzerland) originally planned.

Under the EEA, the regulatory framework of the single market is to be transferred practically wholesale to Efta - which is to adopt EC rules in competition, company law, consumer protection, education, the environment, research and development and social policies. The Efta countries are to set up their own enforcement body with powers over Efta territory. The Swiss "No," by a

small majority of the electorate and a larger majority of cantons, was not unexpected. In view of Switzerland's entrenched neutrality and its unique system of direct democracy, there was even some quiet relief among some Brussels officials, who feared that Switzerland's special features might have made it the cuckoo in the EEA nest.

The No necessitates a time-consuming revision of the EEA treaty meant to have come into force this month.

Efta states will have to renegotiate funding of Ecu2bn over five years due to be channelled to the EC's poorer regions under the terms of the EEA accord.

According to initial indications, the six Efta states still in favour of the EEA are asking the EC to accept a simple reduction of the Swiss contribution. This has sparked hostility, above all from Spain.

Other Efta countries have also, like Switzerland, witnessed a cooling of electoral enthusiasm about EC membership. Because these Efta members will themselves be holding EC referendums during the next few years, further Swiss-style setbacks cannot be ruled out.

Public opinion in Sweden and Finland, both in the grip of severe recession, has become less keen on the EC - reluctance which has probably been increased by the European currency turbulence in the closing

months of 1992 which led to large devaluations of the Swedish krona and the Finnish marka.

There are also considerable doubts whether the Norwegian electorate will give its blessing to the EC link-up. Memories are still strong of the Norwegian referendum rejection of EC membership in 1972. However, if neighbouring Denmark surmounts its problems over Maastricht with a Yes to the treaty in the new referendum being held this spring, this will

ease some of the public opinion obstacles confronting the other Nordic states.

German preference for price stability will he shared throughout Europe. Emu would then be doomed to failure.

This reflects old thinking. There have been times when Germany looked like an island of price stability in an inflationary sea, but the position has changed in recent years.

Six countries have, since 1979, participated with Germany in the narrow band of the EMS exchange rate mechanism. During the 1980s, most of these countries - Belgium, Denmark, France, Ireland, Luxembourg and the Netherlands - have seen their inflation rates converge with or even fall below, German levels. This clearly documents their commitment to price stability.

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Berlin shoppers: a weakness for rose-coloured spectacles

The EMS split between low and higher inflation countries has been made still more evident by the currency unrest of last autumn. And, under the

Maastricht rules, those countries which have not attained an anti-inflation consensus will be barred from joining Emu. Fourth, some observers hint

considerable sympathy for the concept of greater political co-operation in fields such as immigration policy. And the Nordic states - in spite of, and partly because of, the autumn turbulence - are among Europe's most fervent devotees of monetary union.

This enthusiasm is not shared in Switzerland. In view of the Swiss franc's habitual hard currency status, the Swiss are no more eager to give up for a single European currency than the Germans are their D-Mark.

With the anticipated entry of the Efta states in the mid-1990s, the EC's enlargement process will still be a long way from complete. Hungary, Poland, the Czech lands and Slovakia are waiting in the wings, while Malta, Cyprus and Turkey have longer-standing applications. However, all these states in the ante-room will certainly have to wait until the next century before they can accede to full membership.

In the meantime, they have little choice but to persist along the hard path of restructuring their economies and overhauling their political institutions. The non-Efta applicants see the EC above all as a means of bolstering their economies and encouraging financial transfers from the wealthier countries of Europe. The EC, however, views membership chiefly as a reward for economic achievement, rather than as a precondition for it.

All these poorer states face an uncomfortable, somewhat paradoxical, truth. Before they can join Europe's rich man's club, they will have to become richer themselves - by registering up to a decade of higher-than-average growth.

Thus, there is little reason to assume that monetary policy cannot be conducted effectively unless Emu is accompanied by Epu. On the contrary, Emu without Epu might represent a superior institutional framework for price stability.

In Emu without Epu, policy-makers will have a much better chance of accepting the fact that monetary policy is no longer within their grasp, in most European countries, national control over monetary policy has long been an illusion; under EMS rules, Germany's partners have to follow the course of the Bundesbank.

In Emu they will be better off. While the central bank continues to be out of their reach, they will be faced with monetary policies set by a supranational institution, rather than by an individual foreign central bank.

If monetary policy is transferred to a supranational level, it will, after all, be largely depoliticised. With its formal status of autonomy, the European central bank would be in a good position to live up to its task: providing sound money for the citizens of Europe.

Hans-Peter Fröhlich is senior economist at the Institut für deutschen Wirtschaft, Cologne.

THE EUROPEAN SINGLE MARKET 5



Edward Heath (UK). Prime minister 1970-74. Staunch supporter of Euro-integration. Took Britain into EC in 1973



Helmut Schmidt (Germany). Chancellor 1974-82. Co-architect with Valéry Giscard d'Estaing of European Monetary System



Roy Jenkins (UK). European Commission president, 1977-81. Championed EMS to stabilise European currencies



King Juan Carlos (Spain). On the throne since 1975. Pivotal figure in re-establishing Spanish democracy



Mario Soares (Portugal). Helped bring in civilian rule as prime minister after military ousted. President since 1986



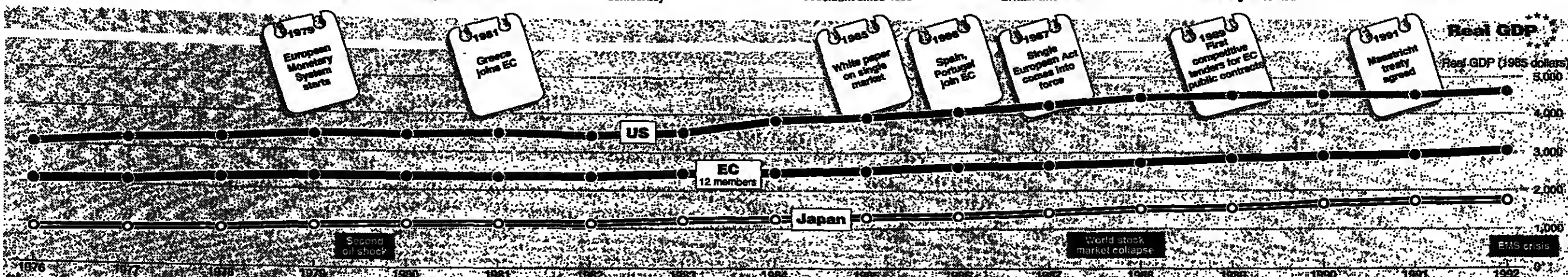
Margaret Thatcher (UK). Prime minister, 1979-1990. Opposed supranational Europe, but took Britain into ERM



Jacques Delors (France). Commission president since 1985. Emu hopes dented. But success with single market.



Helmut Schlesinger (Germany). President since 1991 of Europe's de facto central bank - the Bundesbank



TRADE liberalisation has consistently been the most successful aspect of the process of European integration, and the Single European Market brings it to a triumphant conclusion.

Paradoxically, however, Europe's political leaders have always, just as consistently, aspired to carry European integration into the superior uplands of high politics. In a sense, the history of the European Community is made up of the antithesis and alternation between these two themes.

From the beginning, the founder members of the European Community believed that they were engaged in an essentially political enterprise, and they made repeated attempts to put flesh on these aspirations. Yet, their efforts to build an integrated Community with an explicitly political character have run into repeated difficulties.

By contrast, the negotiation of the removal of barriers and the progressive liberalisation of trade turned out to be surprisingly quick and easy, first in the inaugural 1960s, and again in the past seven years.

The political aspirations of the high priests of European

Ian Davidson surveys Europe's 40-year route march towards a friendly union of historic enemies

It started with coal, iron and steel

Integration are apparent in the names they use: the Brussels-based organisation started out as the European Economic Community; it then became simply the European Community, and now in the Maastricht Treaty it is renamed simply the European Union.

Yet, the title which best matches its most unquestionable achievements is the unofficial name long used by most ordinary people: the Common Market.

Even as they were embarking on economic integration, the founding member states aimed to give their enterprise an explicitly political character. The Schuman Plan of 1950 broke new ground in economic cooperation and trade liberalisation, by bringing the coal and steel industries of the Six member states under common rules; but the ulterior purpose of this new economic enter-

prise, as described at the time by French foreign minister Robert Schuman, was mainly political, to make war between France and Germany not only "unthinkable but materially impossible".

Similarly, when the European Economic Community was formed at the end of that decade, the central treaty responsibility of Walter Hallstein, the first president of the European Commission, was to oversee the removal of internal customs duties and the installation of a common external tariff. But his constant refrain was: "We are not in business, we are in politics."

This antithesis between the political and the economic has meant that the history of the European Community has been marked by an alternation between attempts to get into overtly high politics, and lower-key phases of economic reg-

ulation and liberalisation.

Repeatedly, the political leaders from the six founding member states have tried to accelerate the pace of events, by building a new European bridgehead on the high ground of politics. Just as repeatedly, their political projects foundered. But each time they followed up their political defeats by new and usually successful initiatives in the field of economic or trade liberalisation.

This antithesis between high politics and pragmatic trade liberalisation has been the most consistent single theme in the running policy debate between the members of the Community, and it has regularly pitted the United Kingdom against the original Six. Indeed, that argument, which is still going on today, is the central key to the Community's development.

In the post-war negotiations

which led to the creation of the Paris-based Organisation for European Economic Cooperation (now the Organisation for Economic Cooperation and Development), Britain opposed the supranational ideas advanced by France. In effect Britain won, because the OECD is still a loose organisation of sovereign states without supranational powers.

But the argument did not end there. The next time it was the French who won, since the French who won, since the BDC treaty was eventually rejected in the French National Assembly in 1954, through the combined opposition of the Gaullists and the Communists.

The defeat of the EDC caused a major psychological shock among the Six. But the momentum behind the European idea was nevertheless so strong that they quickly developed another new initiative, for a Common Market. They negotiated the Treaty of Rome

in 1955-57, and launched the European Economic Community (EEC) in 1958. Once again the British stayed away.

This was the moment when the Six finally began to find the right balance between politics and economic liberalisation, between pre-ordained objectives and future policy making.

In one sense the Rome Treaty was obviously an attempt to compensate for the failure of the Defence Community, by launching a more cautious initiative at the work-a-day level of trade liberalisation.

But the originality of the EEC was that it embedded the first policy objectives of the Rome Treaty, the elimination of internal tariffs and the creation of a customs union over a 12-year transition period, in an ingenious machinery of common institutions, so as to

enable this new Community to improvise in the world after the customs union.

In practice, the removal of customs tariffs proved remarkably painless. The French had feared that their industry would be unable to compete with that of Germany; that was why they insisted from the outset that the industrial customs union must be balanced by a common agricultural policy. In the event, their fears proved groundless: like the other member states, their economy was buoyed up by the rapid growth of the 1960s, and the Six were able to complete their customs union in mid-1968, a year ahead of schedule.

The irony of this thriving Common Market was that it became the back-drop for a re-run of the old battles between nationalists and supranationalists. This time, however, it was France in the person of President Charles de Gaulle which championed the nationalist cause from within; while the British, who had refused membership when it was freely available, now wanted to join but were refused entry by the French.

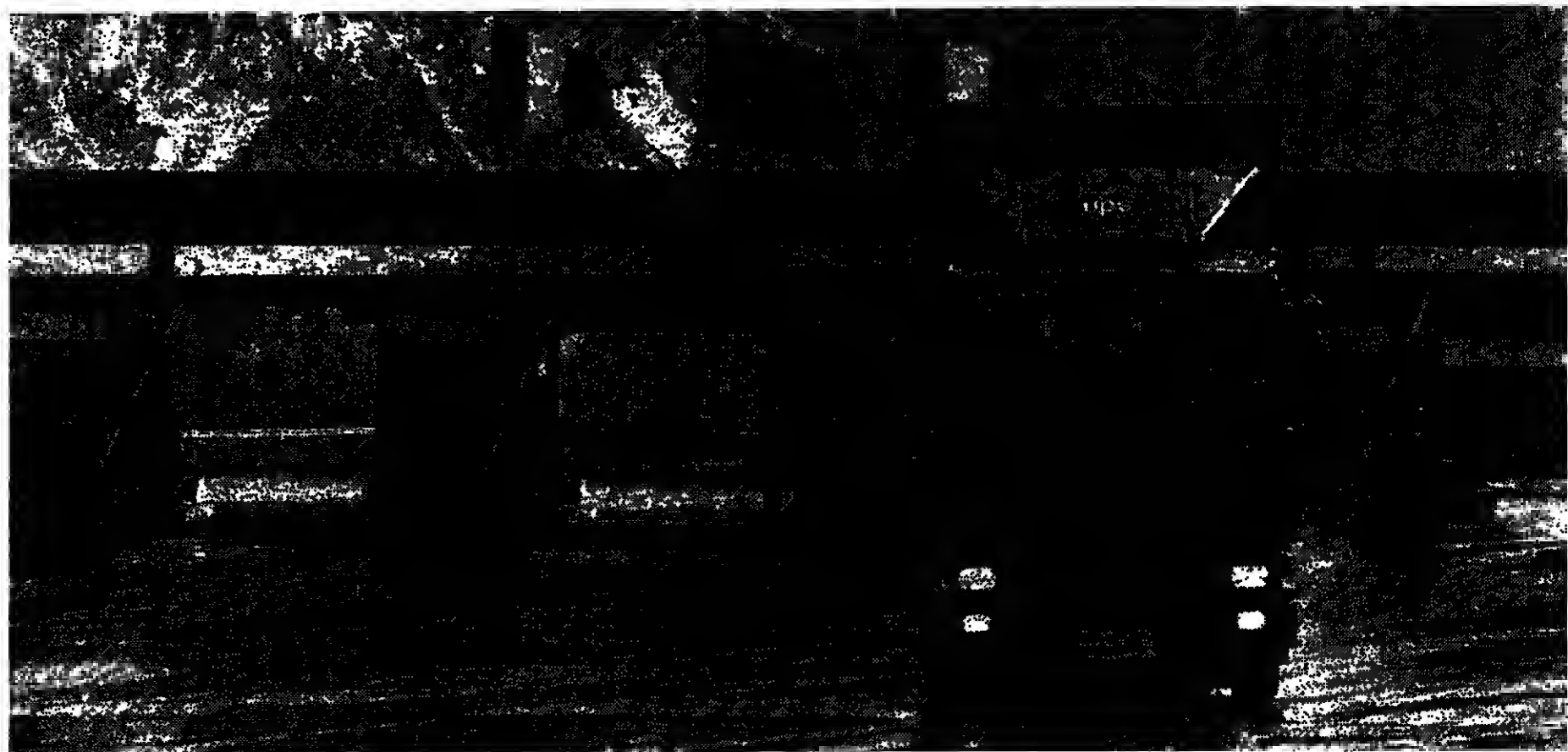
enable this new Community to improvise in the world after the customs union.

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Continued on Page 6

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THE EUROPEAN SINGLE MARKET 6

■ INSURANCE

Ranking 1992	Ranking 1991	Company	Country	Market Capital \$m	Sector	Turnover This year \$m	Turnover Last year \$m	per cent change	Profit This year \$m	Profit Last year \$m	per cent change	R O C E	Employees	Year ending
1	1	Royal Dutch/Shell	N-LUX	76048.7	212	95999.0	98182.0	-2.2	8990.2	13044.1	-31.1	15.2	135000	31/12/91
2	3	Glaxo Holdings	UK	38315.5	433	6789.1	5613.9	20.8	2358.3	2120.3	11.2	37.8	37083	30/06/92
3	2	BT	UK	35909.7	223	22041.0	21738.6	1.4	5078.5	5081.8	-0.1	24.8	219000	31/03/92
4	4	Unilever plc/NV	N-LUX	31588.6	451	38279.8	37570.8	1.8	2861.5	2845.0	0.6	26.1	286000	31/12/91
5	5	Nestlé	SWI	27818.2	451	38279.8	37570.8	6.9	3184.4	2726.7	17.2	25	201139	31/12/91
6	18	Roche Holding	SWI	25018.2	622	8680.3	7330.2	16.4	1544.1	724.7	113.1	13.5	55134	31/12/91
7	6	Allianz Holding	GER	22570.7	151	0.0	0.0	0.0	1200.5	1306.6	-8.1	0	73300	31/12/91
8	9	Siemens	GER	21289.0	541	48130.8	42520.1	15.5	2300.7	1899.8	21.1	8.2	420000	30/09/91
9	15	AT&T Industries	UK	20520.9	171	22854.2	24633.9	-8.1	1733.3	1891.5	-9.0	6.1	212318	31/12/91
10	12	Deutsche Bank	GER	20323.3	112	0.0	0.0	0.0	2281.3	1585.1	43.6	20.8	71400	31/12/91

Tony Jackson looks at the development of industrial and competition policy

A house with glass walls

"The intellectual father of the single market, Lord Cockfield, once said that if it had known how much more competition the single market would result in, European industry and, surely, European governments would have been against it" - Martin Bangemann, EC industry commissioner.

FOR THOSE who believe that Europe should have an industrial policy, the beauty of the single market is that it represents such a policy in itself. In a unified market, runs the argument, companies can no longer hide their inefficiencies behind national barriers. Forced to operate on a truly competitive European stage, they thus enter a Darwinian process which produces regional champions capable of taking on the world's finest.

There will, of course, be casualties along the way. But runs the argument, there should be at least as many winners as losers. The removal of trade barriers is in itself an important stimulus to economic growth, which will - in theory - make good any damage suffered by industry as a whole through increased competition.

However persuasive this argument, it suffers in the short term from two serious

snags. First, far from enjoying immediate economic growth, the single market starts life in a fairly severe recession. It is unusually hard to be sure how long this will last or how severe it will prove, if only because it is partly due to the one-off effects of German unification.

Second, some of Europe's basic industries - steel in particular - are suffering the effects of the wider structural change in eastern Europe. It is again hard to be sure how long the influx of cheap manufactured commodities from the east will last. But there is room for pessimism. If a steel mill or petrochemical plant is not going to be replaced, it can be run purely for cash rather than profit. This is a particularly attractive option if the cash comes in the form of much-needed hard currency and the plant is relied upon for holding a community together.

Additionally, the single market will have the effect of exposing industry to greater competition from the industrial giants of the US and Japan. So it is not hard to see why it is viewed with mixed feelings by some European industrialists. In many cases, the net result is bound to be a competitive squeeze on profit

margins. This raises the immediate question whether overheads and manning levels need to be squeezed as well.

This may be happening already. By the end of last year, the list of multinationals announcing large-scale job cuts in Europe was lengthening ominously. Part of this, however, was a conventional reaction to recession. Furthermore, job losses in the European car industry, for instance, must be seen in the context of continued controls on Japanese car imports until the year 2000.

Again, the 12,000 European job losses announced last month by IBM are a reminder that at least some European markets were exposed to the full force of international competition all along.

But there seems little doubt that as companies integrate their production around Europe - whether to take advantage of the single market or to protect themselves from its pressures - systematic job losses will result. The result, Mr Percy Barnevik, president of the engineering giant ABB, told the FT earlier this month, could be a shake-out of labour comparable to that seen in agriculture earlier this century. Another element of indus-

trial restructuring is to be expected as well. Mergers and joint ventures in European industry are by no means new: they are a consequence of industrial globalisation. But they are also a logical response to the challenges brought by the single market.

It is not easy to specify the extent to which these mergers have been due to the single market. The European food industry, for instance, has seen a particularly high level of takeover and merger in recent years, with multinationals such as Unilever, Nestlé and BSN increasing their dominance, and more national players looking increasingly vulnerable. But this is largely the result of developments within the industry itself, such as the increased readiness of consumers to sample foreign food.

It is worth remembering that some of Europe's most important markets are not much affected by the single market. The pharmaceutical industry still has to satisfy the medical authorities in each EC country separately before it can sell new drugs. Airlines are still greatly restricted on the routes they can fly within the EC. Car-makers' protection from the Japanese will last until the end of the century. The steel

industry is still protected and subsidised in many EC countries.

But in the long run, there is no doubt of the implications for industrial structure. The domestic market for individual European companies is becoming inexorably bigger. Another powerful stimulus for change comes through the gradual opening up of government contracts to competitive tendering from companies from other EC countries. European industry is bound to respond by becoming leaner and larger.

One of the most important determinants will be EC competition policy. Sir Leo Brittan, head of the competition directorate until the end of last year, was seen as a champion of the British preference for unfettered competition. His successor, the Belgian socialist Mr Karel Van Miert, may come under greater pressure to promote a more French-style industrial policy, perhaps favouring regional champions through merger and acquisition.

Certainly, if the worst fears about the risks of the single market are realised, the clamour from Europe's industrialists for a more interventionist approach to restructuring can only become louder.

Liberalisation will be a slow process

THE legal framework for a single European insurance market is now firmly in place but it will take years - possibly decades - for genuine liberalisation to occur.

Differences in taxation and contract law constitute real obstacles to cross border trade, especially in life, home and motor insurance.

After moving at a faster rate than many would have predicted three years ago, the European Commission has this year approved a raft of directives aimed at liberalising the market for both life and non-life insurance.

The legislation, which governments must implement from 1994 onwards, will open Europe's most protected markets to more competition and represents a victory for advocates of greater liberalisation. Under the "single licence", insurers from any member state will be free to trade in any other member state, under home country rules.

At the same time EC members are now committed to dismantling the vestiges of the highly regulated regime. For example, governments cannot demand prior approval of policy conditions or premium rates or require companies to invest in a particular category of assets. That could have an important impact on insurers in Germany, Italy and Belgium, for example, where the motor insurance market is highly regulated.

Even so, genuine cross-border trading is still some way off. Insurers in different member states operate under very different tax rules. Most conti-

nental countries allow insurers much more freedom to build up tax-free reserves, while the room for manoeuvre of UK companies in this respect is still sharply circumscribed. Some life insurers must pay taxes on premiums, others do not.

Variations in legal regimes and the lack of a single contract law system will also hinder trade in insurance. According to London solicitors Lovell White Durrant "the diversity of contract law means that any

'The diversity of contract law means that any comparison of one insurance product with another becomes unbelievably complicated for the layman'

comparison of one insurance product with another becomes unbelievably complicated for the layman."

Penetration of some markets - especially those such as the German, French and Italian, where retail networks are dominated by extensive networks of tied agents, selling the products of just one company, rather than independent brokers - will be tough.

So far Europe's biggest markets - the UK, France, Germany and Italy - are still dominated by domestic companies, although some players are now beginning to win significant shares of neighbouring markets, either through outright acquisition or by the pur-

chase of significant share stakes.

Germany's Allianz has an important share of the Italian market through its acquisition of RAS, while France's Assurances Générales de France (AGF) could eventually win important influence in the German market if its current attempts to control Aschener and Muenchener - Germany's third biggest insurers - are successful.

France's privately-owned Victoire has also made important headway by acquiring Colonia, Germany's second biggest insurer, in 1989. Victoire is currently engaged in a long drawn-out battle with its nationalised rival, Union des Assurances de Paris, for control of the company and a string of other European companies to which it is linked.

Elsewhere Italy's Generali, as well as several French, Swiss, German and Dutch companies are expanding in the rapidly growing Spanish and Portuguese markets, while AGF is a dominant player in the Irish market.

Companies, such as Switzerland's Zurich and Winterthur, and Germany's Allianz have built up strong shares of the continent's market for commercial risks business (the policies bought by larger industrial and financial companies).

By contrast UK companies have recently made relatively little impact in Europe, although Commercial Union's Delta Lloyd subsidiary has an important share of the Dutch market.

Richard Lapper



CHALLENGE: Toyota cars for export waiting to be loaded on to a ship at the Toyota Nagoya Wharf Centre, Japan



RESPONSE: ranks of Peugeot and Citroën await export in a field near Calais, France

David Dodwell gauges the Community's protectionist leanings

A free trade area but...

THE creation of the single market has for several years aroused fears that the world is poised to collapse into competing trade blocks. Fears have been inflamed by the recent progress towards a North American Free Trade Area. With apologies to Mark Twain, reports of the death of free trade have been greatly exaggerated.

However, the dangers of Europe turning inward should not be dismissed out of hand, although these have been linked more with the wider evolution of the EC than with the creation of the single market as such.

There is inside the EC a north-south divide which separates northern members who are keener to encourage free trade from southern member states with strong protectionist tendencies. For example,

the large number of French companies with state investments within that market for a number of products. So do policies in Italy favouring local manufacturers.

State supports for strategic industries, or "national champions", and government procurement rules that keep foreign competitors at bay are also born out of protectionist reflexes.

These reflexes have been stiffened towards countries outside the wider European region as EC member states have realised that, for reasons of political as much as economic security, countries in eastern and central Europe must be given improved access to the EC market. So far, offers of improved market access to the former Comecon countries have been derisory,

and even these have been eroded by dumping actions against some of the more successful exporters from Poland and Czechoslovakia. But in due course they are likely to be improved.

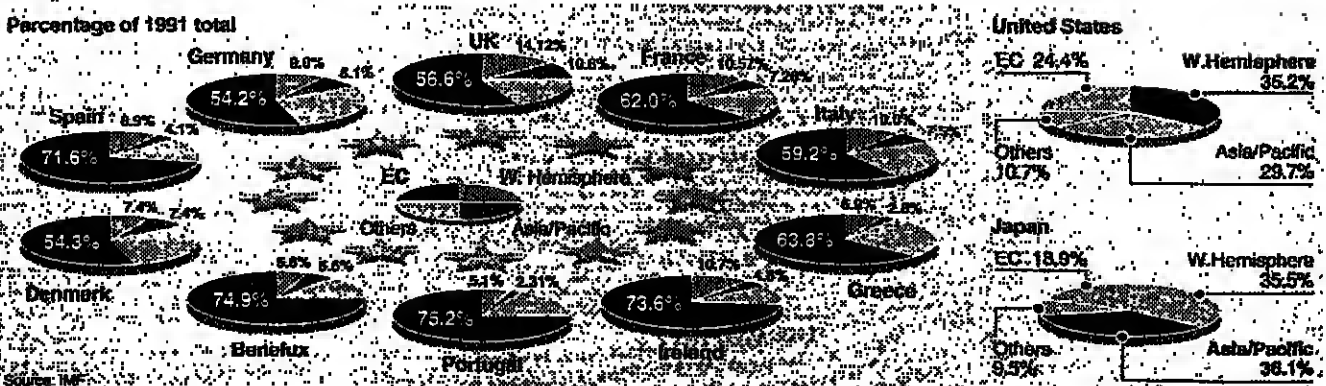
The high level of trade conducted within the community - it averages about 60 per cent, and peaks at 75 per cent with Portugal - makes trade with other parts of the world less significant than for countries in other regions. By comparison, the US relies on the north and south American region for just 35 per cent of its exports, while Japan sells 38 per cent of its exports in the Asia-Pacific area.

However, this does not mean a "Fortress Europe" is a particularly attractive option to most EC industries. Unlike countries elsewhere, those in Europe are unusually depen-

dent on international trade. Germany's exports account for 26 per cent of its GDP - not far from the EC average - while Ireland's exports account for 56 per cent of GDP. This compares with just 7.4 per cent for the US, and 9.4 per cent for Japan.

For countries so heavily dependent on international trade, EC member states have as much to fear from competing trade blocks as any. The emergence of the North American Free Trade Area - embracing the US, Canada and Mexico - and of a wider western hemispheric trading region given form by President Bush's Enterprise for the Americas initiative, has given EC exporters clear warning of the price that could be paid for raising protectionist walls around Europe. At present, neither the single market nor

Exports: Countries' dependence on their own region



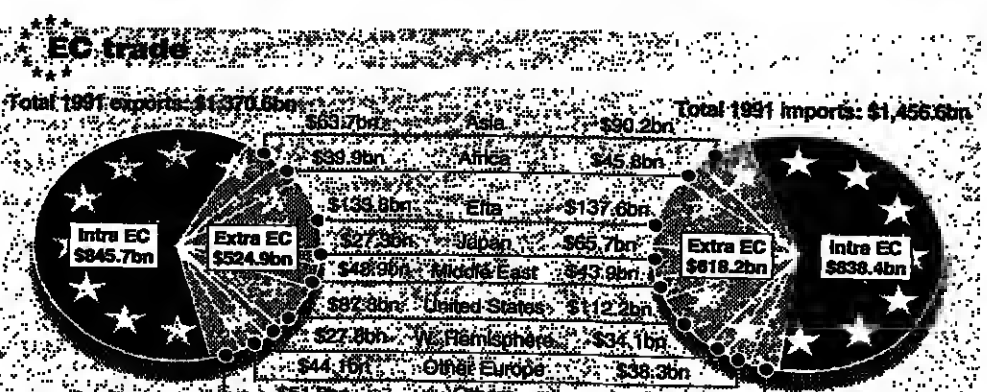
Nafta need take a protectionist form. But they provide the institutional means for this to happen if the mood should change.

For these reasons, it is not surprising that Europe's trading partners have refused to dismiss the danger of emergent protectionism around the creation of the single market. Japanese foreign investment in Europe surged during the second half of the 1980s as companies pre-emptively established a production capability inside the EC.

Some of this was doubtless triggered by the new opportunities arising out of the chance the single market provides to serve so large an integrated market from just one or two locations. But some was also "just in case" investment, to avert the danger of losing access to important markets if the single market raised effective protection around the EC.

A perverse consequence of this flood of inward investment has been to divert investment from European countries outside the EC, in particular the EFTA countries. It is this - coupled with the fact that the EFTA group relies on the EC for two thirds of its exports - that has encouraged countries such as Sweden to press so urgently for full EC membership.

However, obsession with the protectionist dangers of the single market have clouded the trade-liberalising consequences of the change. Companies in each EC member state



that have in the past been hampered by national barriers to trade are set to see almost all institutional obstacles fall to free trade across the whole community.

Exporters to Europe which currently have to deal with 12 different sets of export documentation, negotiating market access, and distribution arrangements country by country, will from January have to jump just one set of hurdles. Once goods land in one EC country, they can be moved freely across a market of 344m people, without border controls, or other checks, providing a marvellous opportunity to rationalise and improve distribution.

In due course, standards of all kinds will be harmonised, whether for regulations for electricity sockets, safety standards or food additives, giving exporters and domestic manufacturers the same consider-

able scope to simplify production and packaging arrangements.

But whether or not the single market will raise or lower effective protection will also depend heavily on the outcome of the long-delayed Uruguay Round of talks aimed at reduction of barriers to international trade.

The outcome of these talks, which have crept inconclusively forward for six years, remains uncertain.

But in so far as the draft agreement published a year ago, and negotiations up to the end of 1992, provide a guide, the Uruguay Round would reduce protection in farm trade, cut tariffs in a number of industrial sectors to zero, set a 10 year timetable for dismantling protection in textiles and garments, and open up a number of service industries - including banking and insurance, audio-visual ser-

vices and shipping.

The Uruguay Round would set stricter rules for deciding whether or not an exporter to the EC is dumping. This will be of particular importance to Japan, the Asian "tigers", and the liberalising countries of central Europe, since the EC, with the US, is quick to take anti-dumping actions to protect domestic industries that are inefficient, vulnerable, or simply powerful.

But neither the Uruguay Round, nor the establishment of the single market, will overnight remove all inconsistencies in trade policy between EC member states. It will take at least six months for national quota arrangements for banana imports to be harmonised. Rationalisation of textiles quotas, quotas on shoes and bicycles, and of "voluntary restraint agreements" on imported cars may take longer still to sort out.

Continued from Page 3

In 1961-62 de Gaulle tried to emasculate the European Community with a new inter-governmental Treaty restoring political authority to the member states. And in 1965 he returned to the fray, with a frontal attack on the principle of majority voting under the Rome Treaty. Neither attack succeeded; but the second left the Community bruised and politically traumatised.

This political trauma lasted long after de Gaulle left the scene in 1969. For the euphoria of the rapid economic growth of the 1960s gave way to Euro-pessimism in the 1970s and early 1980s.

The international monetary system was thrown off balance by the US abandonment of Bretton Woods in 1971. The world economy was thrown into stagnation by the two oil crises of 1974 and 1979. And

inside the Community, it became apparent that tariff liberalisation was only the first step towards a free market; member states were compensating for the slow-down with national regulations, state subsidies and industrial policies whose purpose and effect was protectionism.

The Community attempted to grapple with the consequences of the slow-down, by searching for a follow-on programme for the customs union. In 1969 it issued a declaration for an Economic and Monetary Union in Europe, and again in 1972; but in practice nothing became of the idea.

It was not until the end of the decade that Europe began to recover its inventive energy. In 1979, President Giscard d'Estaing of France and Chancellor Helmut Schmidt of Germany provided their solution to the instability of the international

monetary system, with their scheme for a European Monetary System (EMS), which has since become the basic building block of the more recent plans for Economic and Monetary Union.

Five years later (in 1985) the Twelve resolved that they must after all settle down to turning the customs union into a true Common Market, by removing the many remaining non-tariff barriers and other obstacles to complete commercial freedom.

Mrs Margaret Thatcher, the then British prime minister, saw the Single European Act as an attractively free-trade alternative to the more politically ambitious projects which France and Germany seemed to be promoting.

But as so often in the EC, Mrs Thatcher's ideological victory in favour of simple free trade turned out to be more

incomplete and more treacherous than she may have hoped.

The immediate price of a commitment to a single European market, with its four freedoms for goods, persons, services and capital, was a significant enlargement of the role of majority voting. The deferred price, was that the logic of the single market paved the way for the Delors report, which in turn paved the way for the Maastricht Treaty and the programme for Economic and Monetary Union.

These latest grand schemes have not necessarily been any better designed than the EDC of 1952, and they may collapse under their own weight. But the central fact about the Maastricht treaty is that it is an attempt to unite, at a high level, the political and the economic themes of European integration.

هكذا من الشغل

THE EUROPEAN SINGLE MARKET 7

Andrew Hill probes sensitive areas where unity is elusive

Deferrals and omissions make progress patchy

THE single market was always going to be a patchwork. Nobody ever expected a flawless barrier-free area to take shape at midnight on December 31, 1992, however much the politicians like to say that it has.

Instead, the single market has been an evolutionary programme of measures, with different elements coming into force at different times.

Many of the most important changes have already happened. For example, exchange controls were lifted in eight countries - all except Portugal, Ireland, Greece and Spain - by July 1990.

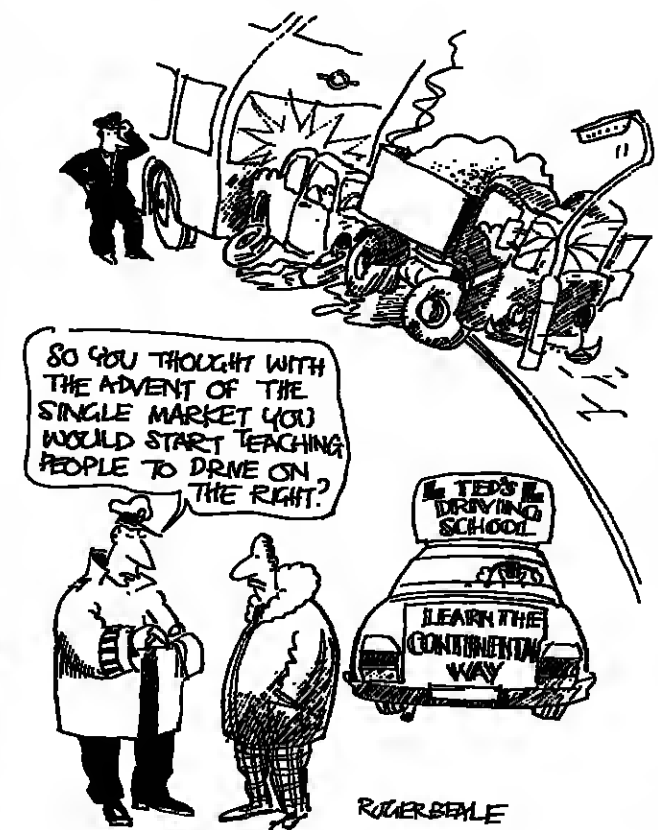
The first legislation to open up the market for public procurement, worth 15 per cent of the European Community's gross national product, came into effect as early as the beginning of 1989. Graduates' qualifications have been recognised across all 12 member states for the past two years.

But in spite of the surprising speed with which the European Commission and member states have worked to adopt and enforce single market legislation there are still some notable gaps, which it will take many years and much political negotiation to fill. Broadly, they divide into three areas: delays, deferrals and omissions.

● **Delays:** These are the measures which have not taken full effect, even though they have been adopted by member states, because they have yet to be properly implemented or transferred into national law.

Such delays are occurring in all areas of single market law. According to some analyses, less than 50 per cent of Lord Cockfield's 280 or so measures have been transferred into the national law of all 12 member states.

Commission officials play down this figure. They point out that the original legislation makes clear that all adopted measures come into force on January 1, 1993, even if they have not been transferred into national law.



Thus, consumers or traders who believe that they are being deprived of the benefits of the single market by their government's sluggishness can take the national authority to court.

More worryingly for the bar-

In practice, EC business is already upset about the burdens allegedly imposed by the transitional system

rier-free market, efficient member states - such as Denmark, which has transposed more than 95 per cent of the relevant legislation - could theoretically block the import of goods manufactured under rules which had not been altered to

conform with single market law.

● **Deferrals:** The single market is riddled with deferrals - or "derogations" in EC jargon - usually written into legislation to ease a political agreement, or because it will take time to implement a measure. Frequently they apply only to one or two member states, sometimes to a specific industry.

The most obvious example is the "transitional" system for collection and administration of value added tax (VAT). Member states agreed a system which allowed border controls to be abolished on January 1. But this is, in theory, only a temporary measure, and the Commission still envisages the installation of a permanent VAT system in 1997.

Under this permanent system businesses would benefit from the same advantages as consumers, who can now buy all goods, except cars and mail-order items, at local VAT rates. In practice, EC business is already upset about the burdens allegedly imposed by the transitional system, and may resist another change as early as 1997.

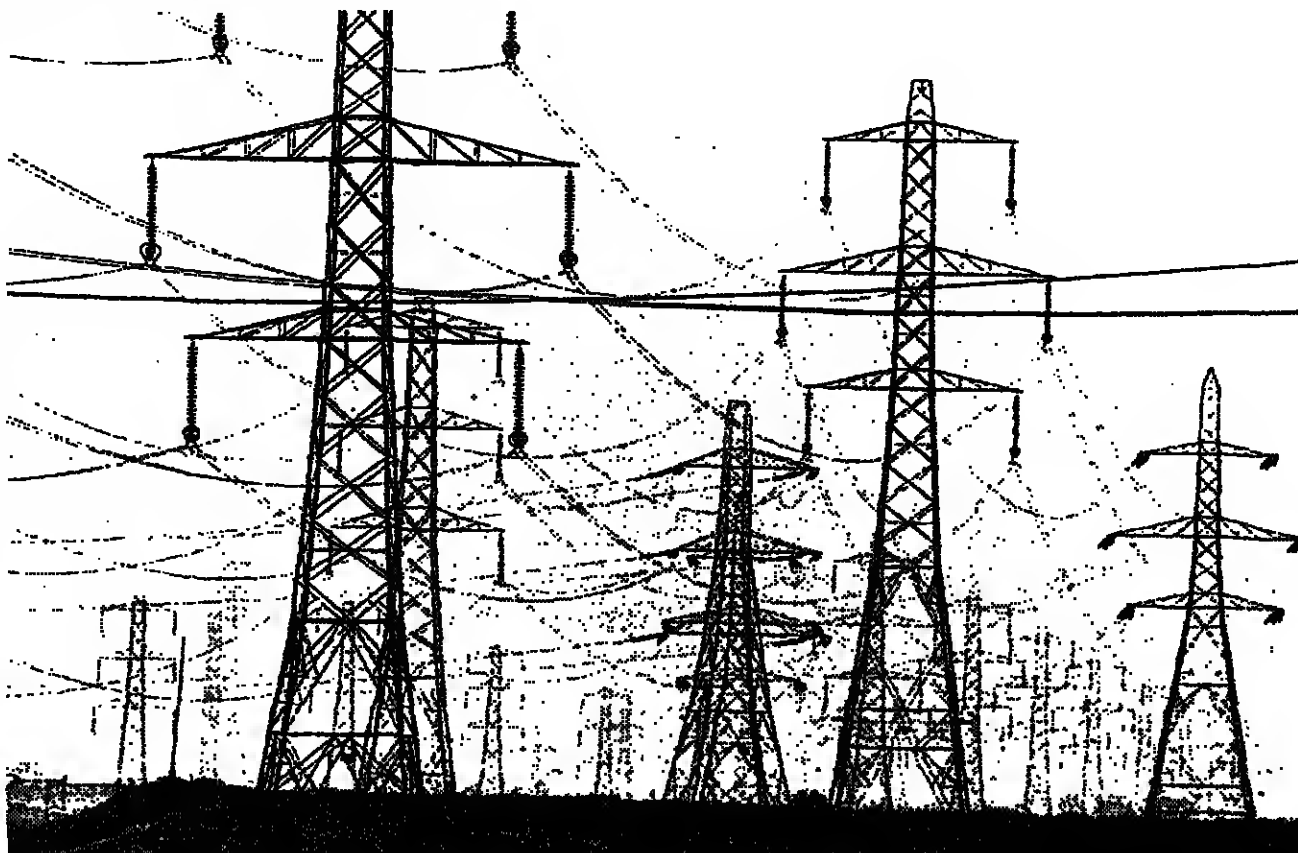
Other important derogations include: freedom for insurance companies to set up and do business across the Community (July 1994); the "single passport" for stockbrokers and banks to deal shares across the EC (January 1996, with banks' access to exchanges in Spain, Portugal and Greece delayed still further); and open competition for airlines, which have been able to set any fare they want from January 1, but will not be able to fly any route they choose (including "domestic" flights in one member state) before April 1997.

● **Omissions:** These are areas which are usually so sensitive that member states have been unable to agree. In most cases they were not even part of the single market programme.

● **Energy:** Energy liberalisation was excluded from the 1985 Cockfield white paper, and recent discussions on how to open up gas and electricity markets have led nowhere.

Member states have already, albeit reluctantly, agreed to allow some cross-border transit of electricity and gas, and some countries favour linked proposals to improve the transparency of companies' accounts and end monopoly rights over electricity production and the construction of energy networks. But they balk at the idea of giving consumers the right to buy their energy from any supplier in the EC.

Commission proposals should have given large users the right to "third party access", as it is known, from January 1, with the possibility of small users being granted the benefits from 1996. But the UK, the EC's strongest advo-



Pylons on the UK's national grid: recent discussions on how to open up gas and electricity markets have led nowhere

cate of energy liberalisation, ran up against heavy opposition during its presidency of the Community and the measures have not been agreed.

● **Telecoms:** The Commission, often using special powers to override EC members' objections, has already pushed through measures to liberalise the EC market in telecoms services and equipment. But it has fought shy of putting pressure on member states to liberalise the most obvious area - ordinary phone calls.

A long-awaited review of the sector, published by the Commission in October, pointed out that the cost of cross-border

Progress has been slowest in company law as member states see this as less vital than was originally thought

telephone calls in the EC was excessive but said there would have to be yet more consultation with the industry and consumers before legislation could be introduced.

● **Postal services:** Moves to open up mail services to com-

petition are lagging behind liberalisation of the telecoms sector, but the story is roughly the same. A discussion paper produced by the Commission last May stepped back from suggesting immediate liberalisation of mail services, although in due course Brussels may produce legislation to open up direct mail, cross-border and express postal services.

● **Company law:** This is the area of the single market white paper where progress has been slowest. That is not because the measures under consideration are particularly sensitive - although Britain, among others, objects to clauses on worker participation - but because member states seem to have decided that such legislation is less essential than Lord Cockfield and his colleagues originally thought. Even moves to agree a voluntary European Company Statute for multinationals have stalled over the last year, while a measure to harmonise takeover procedure across the Community has been dropped altogether. (See separate article.)

● **A single currency:** This is so obvious that it is often overlooked. EC leaders agreed at

Maastricht that a single currency would be in place by 1999 at the latest, but that "deadline" is subject to ratification of the treaty by national parliaments and to strict economic criteria.

Logic says that the Ecu would be an indispensable part of the single market; politics - notably in Denmark and the UK - could mean that it ends up the most important omission of the lot.

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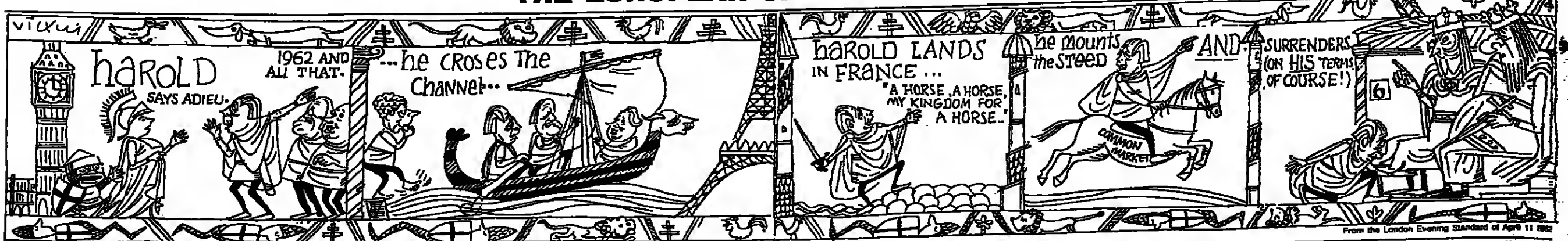
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THE EUROPEAN SINGLE MARKET 8



THE idea that we are now in a new era of EC-wide consumer homogeneity would please consumer goods' brand managers everywhere - it would make life a lot more simple - but we are far from that.

The member states of the European Community still have vastly differing national legislation on just about every facet of consumer life; everything from toy advertising to a legal definition of low alcohol beer has yet to be harmonised. And as bigger fish - such as a common currency, or common taxation policies - have yet to be fully fried, subsidiarity, the principle permitting decisions to be made at the lowest possible level of community life, is likely to be applied with regularity when it comes to consumer matters.

All manner of issues affecting not only consumer choice but manufacturing and exporting plans have yet to be determined. While the EC has abandoned plans to compile "recipe laws" stipulating what a particular product must contain, proposals on minimum standards of food hygiene, labelling and the use of additives have yet to be agreed on.

Some barriers have come down; a product legally available in one member state must be allowed into the other 11 - which will pose problems in

Matching consumers with products is the challenge facing corporations, writes Gary Mead

Variety remains the spice of life

many areas, not least that of pornography.

Other areas of as yet untested freedom of consumer choice include the removal of restrictions on imports of duty and VAT paid goods. In the UK the law may swiftly be rendered absurd. The customs and excise have suggested import limits "for personal use" of 10 litres of spirits, 90 litres of wine, 110 litres of beer and 800 cigarettes; anything above that may be deemed for "commercial use" and thus subject to UK imposed duty. The restrictions currently imposed on duty or VAT free goods will continue in place until June 30, 1993.

Given the discrepancies between duty levels in the UK and elsewhere in the EC on alcohol and tobacco, the single market's most immediate effect in consumer terms may well be to give a boost to the vehicle rental businesses of south coast ports, as people rent trucks to stock up across the Channel.

Some significant consumer

legislation will take time to filter through, particularly the EC's product safety directive - which applies from June 1994 - which states that goods must be safe during "normal or reasonably foreseeable use" and unlike current UK legislation will also apply to second-hand products threatening severely to dent the popularity

Differences between the various member states are likely to defeat attempts to cajole them into homogeneity

of car boot sales, one of the few growth areas of the UK economy in recent times. All EC countries will be required to implement a scheme to withdraw dangerous products from the market.

Another consumer-friendly piece of legislation will start to make itself felt in early 1993, an "eco-label" on domestic electrical products, showing that they meet certain energy

and water efficiency criteria. Eventually this labelling is expected to be carried by all manufacturers of such products.

Draft EC legislation on food claims in advertising is likely to be adopted by the Commission early this year, and is expected to establish a general principle that claims should not be false or misleading. Claims made in food advertising will have to be substantiated on the label. Responsibility for regulating claims will probably rest with delegated authorities of the member states.

But these and other legislative manoeuvres affecting advertisers and consumers, the sub-text of which sometimes appears to be the construction of a standardised consumer rather than a standardised consumable, need to be seen in the context of subterranean changes occurring in the fabric of European society.

The differences between the various member states' populations, their habits and prefer-

ences are likely to defeat attempts to cajole them into homogeneity. The EC is more complex in its internal divisions and perhaps more resistant to imposed legislative change than its Eurocrats might wish.

For one thing, certain member states are likely to show much faster population growth than others; some will contract. According to the marketing research organisation NTC, over the next 30 years the Netherlands' population is expected to increase by more than 13 per cent, while Italy's will shrink by 7.4 per cent. Growth is expected in the UK, Portugal, Greece and France, while Ireland, Denmark, Spain, Germany and Belgium are all likely to follow Italy's downward path.

Overlaying that are profound changes already at work in the structure of the family, none of which lend themselves to the positing of a pan-European pattern. While it is estimated that 5 per cent of all families in the EC are now single-parent, 81

per cent of those are located in the north-west of Europe; in Denmark, more than 25 per cent of families with children are headed by a single parent. A north-south divide exists within the EC over the nature of the family, with the traditional family structure holding up in the southern EC members, and crumbling in its

Regional disparities present problems for companies marketing their products from a fixed global viewpoint

northern.

Moreover, other evidence suggests that while there exists a superficial appearance of homogeneity of certain important factors - such as personal disposable income - on a national level, regional disparities are cropping up throughout the EC.

According to research by the Henley Centre for Forecasting (Frontiers 1991/1992), "the

divergence in prosperity across European regions is often wider within countries than across them. Italians from Lombardy have a personal disposable income twice as high as that of consumers in Campania or Calabria... consumers in the Balearics or Catalonia have 60 per cent more disposable income than consumers from Extremadura or Andalucía."

Such regional disparities inordinately complicate the business plans of companies seeking to market their products from a fixed global viewpoint.

While it might make perfect cost sense to forge ahead with a pan-European television advertising campaign for a branded consumer item when looked at purely from intra-national levels, it might be less attractive when it is realised that nationally-calculated figures often disguise considerable regional differences.

The EC's own data suggest that average per capita income disparities are widening; in the

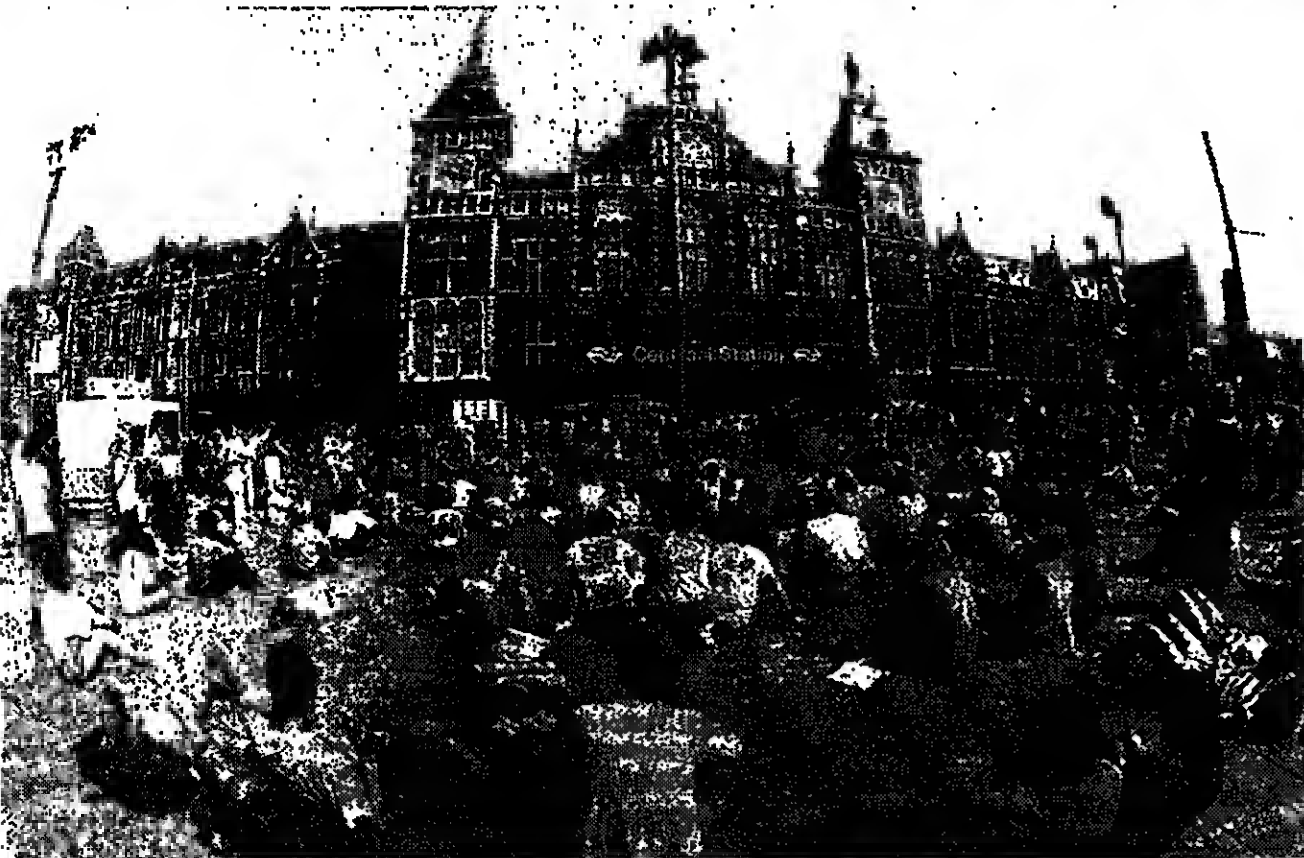
25 poorest regions of the EC it fell to 56 per cent (from 87 per cent) of the EC average between 1986-88, while in the 25 richest regions it grew to 137 per cent (from 135 per cent).

One of the central objects of Maastricht is the creation of common European citizenship. Large global corporations have been slowly adopting globally-aimed advertising strategies, in the belief that consumers the world over are gradually losing their differences.

Up to a point that may be true. But the challenge for corporations within the single market will be highly complicated. First they must understand the developing legislative, economic, social and demographic distinctions within the single market.

Then they need to finely tune their marketing decisions for successful communication via the plethora of new, highly fragmented, media outlets - particularly the continuing explosion of satellite and cable television channels, which, with the imminent technological revolution of digital compression, will mean even more broadcasting possibilities.

Somewhere out there is a consumer who perfectly matches your product. The growing problem will be identifying where they live and letting them know you, too, exist.



Centraal Station, Amsterdam: of the four freedoms - movement of capital, goods, services and people - only the first three have been realised



Children at Euro Disney: EC leaders concluded in the second half of last year that decision-making had to be brought "closer to the people"

David Gardner finds that ordinary people have yet to feel the benefits of the Community

Citizens sceptical about their prospects

THE YEAR of the completion of the single market has also been the year in which the Maastricht treaty tottered on the brink, mainly because of a loss of confidence by Europe's citizens in the Community's leaders, institutions, and policy-making.

"Ever closer union" among European nations is not widely perceived to be creating a Europe for people - a democratic polity in which sovereign member states work supranationally producing visible benefits for their citizens.

The EC is increasingly seen as an organisation which does rather more for business than for people; is undemocratic, intrusive and unaccountable; and which by hyperintensifying competition in European industry contributes to destroying rather than creating jobs.

That this is not an altogether accurate, fair or complete picture is beside the point. European Commission president Jacques Delors summarised the situation five days before the Maastricht treaty squeaked through September's referendum in France: "Either Europe will become more and more democratic... or Europe will be no more." If citizens are not persuaded there is something in it for them, then the game is up.

Since "Europe" came into being 40 years ago, it has been the enterprise of the élites. The Paris weekly, *Le Nouvel Observateur*, captured how most people visualise its workings just before the French referendum. It published a photograph of a sharp-suited man against a backdrop of the 12-starred EC flag - with a paper bag over his head.

In spite of its remoteness and facelessness, the EC's overwhelming benefit to people has been its interlocking of national interests in a way which precludes war between Europe's leading powers. But that benefit is now taken for

granted. Modern Europeans have discounted it, and fear EC centralisation. Yet, at the same time, they expect of the Community practical benefits, such as job-creation, which it does not really have the power to deliver.

Throughout the almost glacial progress of European integration, the member states have guarded their national prerogatives jealously. As a quasi-federation, the EC has been built up almost back-to-front.

Whereas a conventional federal system, such as the US or Germany, starts by pooling

obvious central powers such as foreign policy and defence, macroeconomic co-ordination and monetary policy, the EC started with modest items like coal and steel, wheat and milk. Only through the still unratified Maastricht treaty has it broached a common foreign and security policy and a single currency.

The relaunch of EC integration, moreover, came through the single market, a battery of 282 measures designed to create a barrier-free economy in Europe. The Twelve organised this exercise centrally, to the extent that not all member

states trusted their partners to flatten their part of the level playing field. For the average citizen, however, the experience appears to have been mixed.

Many of the single market measures have appeared intrusive, and at first glance often seem more properly the concern of local councils, rather than unelected bureaucrats and national ministers making decisions behind closed doors in Brussels.

At one level, there has been a bonanza of tabloid headlines on "Brussels Euro-lunacies" ranging from alleged plans to

suppress prawn cocktail crisps to decrees defining a standard Euro-condom. But alongside the trivia, there is genuine concern about the effect of many of the measures that have been adopted over the past four years.

Of the single market's four freedoms - in the movement of capital, goods, services and people - only the first three have been realised. This achievement has increased competition during a European downturn and rising unemployment.

Taken together with the failure to agree free movement

across borders for people, the overall enterprise looks a lop-sided bargain, tilted heavily towards business.

EC leaders - most of them unpopular at home and eager to pass the buck to the European Commission for misfired EC measures that national ministers decide on - concluded in the second half of last year that decision-making had to be brought "closer to the people".

No populists they, the 12 heads of government chose as their primary vehicle "subsidiarity" - meaning that there should only be action at EC

level when national or local measures would be ineffectual. While subsidiarity was never going to enter anybody's vernacular, this debate quickly moved from quasi-theology to naked power politics. Big member states such as the UK and Germany tried - and failed - to use it to emasculate the monopoly right of the Commission to propose measures, which is viewed by the smaller and poorer EC members as the guarantor of their interests in the Community.

Then the Euro-sceptical UK, which held the EC presidency in the second half of last year, tried to roll back some 65 laws and proposals strengthening workers' and consumers' rights, and environmental standards.

These are the most popular policy areas, particularly in the semi-detached member state of Denmark, for whose voters subsidiarity was put on the agenda after they rejected Maastricht last June.

At December's Edinburgh summit, an agreement was reached, preserving the balance of power in the EC. It will make Brussels more cautious about the ideas it brings forward and the closed-door Council of Ministers of the Twelve more user-friendly, since important policy debates will, from February 1, be televised for the press.

There is a danger, however, that Brussels will be inhibited in setting in areas such as the environment and free movement for people, for fear of upsetting member governments.

The subsidiarity debate was handled with opportunism by governments so that mud stuck to "Brussels" - synonymous in most people's minds with the whole European enterprise. It also served as a smokescreen to obscure the real issues of democracy and accountability.

It is unlikely that the EC can continue for long in this way. This is not because there is some mass movement rattling the Eurocracy's gates demanding to be let in, but because, on the contrary, apathy and resentment are increasingly denying popular legitimacy to the EC as last year's polls, referendum and restive national parliaments demonstrated.

To reverse this, EC decisions will have to be seen to be more open, more scrutinised in the European Parliament and national parliaments. And their content will have to be more popular, if not populist - giving citizens a greater stake in Europe.

Corporate strategy: why a US appliance giant sided with Philips

A Whirlpool romance

were interrupted by the crash in the world stockmarkets, but by August of the following year, the two companies had struck a deal. Whirlpool paid Philips around \$500m for a 53 per cent stake in a new joint venture company, which - to all intents and purposes - took over Philips' large domestic appliance division.

At the time, both companies envisaged that Whirlpool might become the sole owner of the European business - Philips with the right to sell its minority stake to the US company and the US company with the right to ask the Dutch to sell. Three years later everything went to plan: Whirlpool duly bought out the remaining 47 per cent of the equity for about \$610m.

The relatively slow hand-

over of the Philips business was mirrored at the operational level. Whirlpool recognised at the outset that its own name - although extremely familiar to the average shopper in the US - would carry little weight in



Europe, compared with the old-established Philips brand. With this in mind, Whirlpool was given the right to use the Philips name on appliances in Europe until 1998 - long after the potential buy-out of the remaining minority stake, and the date set for European harmonisation. Accordingly, the com-

pany decided, in early 1990, to adopt a "dual-branding" approach to products marketed in Europe. It placed both companies' names on products it was selling in the European market, with a view to phasing out the Philips tag once its own name gained recognition. Alongside the middle-range Philips/Whirlpool brand, it continued to develop the "Bauknecht" name as a premium high-end brand and to use the "Ignis" and "Laden" names for "value-conscious" consumers.

Brand transfers have worked in the past - and Whirlpool says its programme is ahead of schedule. It is now advertising solely under its own name in four European markets, including the UK, although product packaging still carries dual-branding

there. It plans to move to pure single-branding in a few selected markets next year.

On the operational front, Whirlpool's approach has also changed over time. In 1991, it effectively created two business units - one to support the Bauknecht brand and one to market Philips/Whirlpool. Ignis and Laden products. Marketing and sales activities for the brands were to remain separate in each country, while after-sales services were consolidated into single offices in each market.

Last autumn, the company announced that it was creating three distinct sales regions within the EC. The first encompasses Germany, Austria, Switzerland, the Netherlands and Denmark; the second embraces France, Spain,

Portugal and Belgium; Norway, Ireland, Finland and the UK make up the third. In addition, Italy remains a separately-managed area, as are the interests in Czechoslovakia and Hungary.

Support services and sales resources will be shared within these regions, and a new central logistics department would aim to maximise distribution efficiency. The aim is to replace the previous, fragmented national warehouse network with regional distribution centres, as the trade barriers between countries come down and Europe's transportation industry is steadily deregulated.

Finally, on the manufacturing front, there has been a general reorganisation around product groups - a process which has been proceeding for some time. Laundry and dishwasher development centres will be located in Germany and refrigeration and cooking product centres in Italy.

Nikki Tait

THE EUROPEAN SINGLE MARKET 9

Women will get a growing share of jobs, writes Catherine Milton

Sex equality is not all that it seems

WOMEN are likely to win the bulk of the new jobs expected to be created in the European Community over the next two decades. This may, however, have some double-edged consequences for both national labour markets and for women themselves.

It could contribute to the continuing high levels of EC unemployment. One reason EC joblessness has continued at such levels is that about 70 per cent of the new jobs created between the end of 1985 and the end of 1990 went to previously unwaged women, rather than the registered unemployed.

This trend appears to be entrenched. The European Commission predicts that previously unwaged women will take up most of the 25m new jobs it expects by 2010.

The consequences for women themselves are far from straightforward. Their position in the future EC will depend in large part on whether they are working full or part-time and on the national labour market systems within which they work.

Recent research*, as yet unpublished, has found that women's work is polarising,

both between different groups of women workers and across the different member states (Data was not available for Italy).

The research, which was completed for the European Commission's Network of Experts on the Situation of Women in the Labour Market, says: "Women's increasing participation in all the labour markets of the EC over the past decade might be expected to indicate increasing convergence in the labour market

In some EC states and occupations, part-time work is less of a barrier to professional status than in others

positions of men and women. Evidence... suggests no such expectation is justified."

About 30 per cent of the jobs created between 1985 and 1990 were part-time and EC employers are expected to increase their demand for part-time workers, many of whom are likely to be women, over the next two decades.

The research, which is based on an analysis of the most

comprehensive labour market data available for EC countries, supports the recent finding by the OECD that "female part-timers are more restricted to a limited range of low paid, low status jobs than male full-timers".

In all EC countries women part-timers are more likely to work in female-dominated or "feminised" occupations than full-timers. Part-timers are also more likely to be in lower level jobs than are women full-timers.

The researchers warn that overall measures of occupational segregation may, however, mask divergent trends and levels of segregation for full-time women workers, compared with part-timers and between the different EC labour markets.

The report says: "Overall measures of segregation are not necessarily very revealing as the net change reflects the result of two trends pulling in opposite directions: firstly a tendency for women to be increasing their share of professional and higher level jobs, but secondly a tendency for women also to be increasing their concentration of employment in sectors

where they were already heavily overrepresented, notably in clerical and some service sectors."

The research reveals that women's status at work varies considerably, even between those member states with similar levels of development and of female participation in the labour market.

For example, in the UK female part-timers dominate lower level jobs in catering, whereas in France both full and part-timer of both sexes are more evenly represented in these jobs.

Also, in some EC countries and occupations, part-time work is less of a barrier to professional status than in others. In female-dominated professions such as teaching, for example, part-time women workers have a relatively higher share of professional jobs in Germany, Greece and the Netherlands.

In contrast, in Denmark, France, Portugal and the UK part-timers generally have a lower share of the professional jobs or have shares only equal to their share of all jobs in the total labour market.

The research says: "This example suggests that within



Crêpe stall in Paris: female part-timers are more restricted to a limited range of low paid, low status jobs than female full-timers

feminised professions, there is considerable scope for variety in the extent to which part-time working is utilised and in some countries part-time work may be just as common in professional areas."

The study appears to undermine the argument that it is necessary for women to work in the lower level part-time jobs to achieve what is sometimes characterised as

the main goal - increasing women's participation in the workforce.

For example, like Denmark and the UK, the Netherlands has high levels of women working part-time. However, unlike Denmark and the UK, the Netherlands has a relatively low level of total female participation within the paid workforce.

The research suggests that this is because the labour market systems of member states will also have an influence on women's occupational segregation into low status jobs within feminised sectors.

It says that in some countries the opportunities for part-time working in higher level jobs seem to be greater and therefore the association of part-time work with low

skill concentration is reduced. *Occupational Segregation and Part-Time Work: Some Evidence from the European Community. Jill Rubery and Collette Fagan, November 1992, Manchester School of Management, University of Manchester Institute of Science and Technology with the European Commission Network on the Situation of Women in the Labour Market.

Consumer tastes are becoming more daring

Drinks sector sees the birth of the Euro-palate

THE Euro-consumer is still a shadowy species, but one that is slowly gaining substance as national tastes converge, according to market researchers.

In the drinks sector, a few more people every year are converted from traditional, locally-produced spirits to international brands of whisky and cognac. Many soft drinks find increasing acceptance across frontiers.

Northern Europeans are drinking more wine; and southern Europeans are acquiring a thirst for beer. While the Germans, the continent's heaviest beer drinkers, maintained a steady annual consumption of 142 litres a head during the 1980s, Spanish consumption rose 36 per cent to 72 litres, and the Portuguese lifted their intake a staggering 68 per cent to 64 litres.

Throughout the decade, the British ale drinker continued to develop a taste for contin-

Britain has been much more receptive to foreign products since the late development of its lager market

tal lager, bringing another note of harmony into the European beer market.

At least one Dutch barman in Friesland no longer tries to make UK visitors feel at home by scraping the froth off a glass of Pils and jovially presenting them with "an English beer".

But the fact that Europe's beer drinkers now have more tastes in common does not mean that by the end of the decade everybody will be drinking the same few brands. Perish the thought.

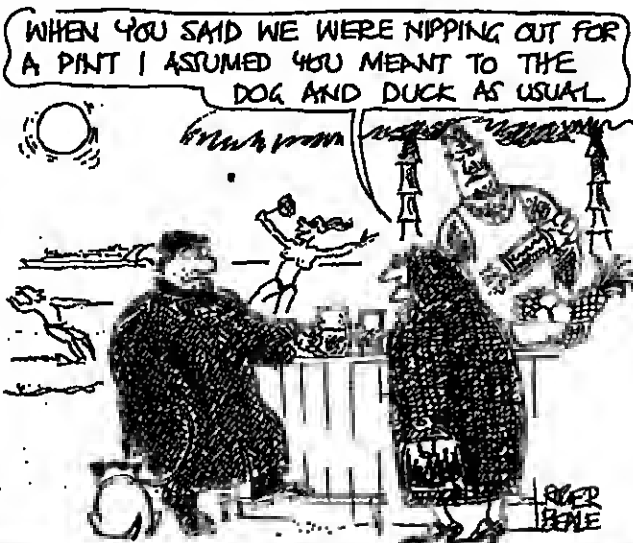
Lager dominates the market - but there is a huge variety of brands and, on the whole, each country still prefers its own.

Consumer loyalty to local brews is strongest in Germany, which accounts for more than a third of European beer consumption. The country supports 1,150 breweries and rather more breweries. The Reinheitsgebot purity laws, which required the use of only water, barley, hops and yeast in making beer, long proved a barrier to imports.

But even since the laws were rescinded in 1987, imports have risen by a mere 0.5 per cent, and still represent less than 2 per cent of consumption.

Few believe, however, that such a situation can survive for much longer; and Carlsberg of Denmark, and Grolsch of the Netherlands have recently acquired German breweries.

Britain has been much more receptive to foreign products since the late development of its lager market - with even Sol, a Mexican lager served with a wedge of lime in the bottle, in the repertoire. One bottle, in the repertoire, in three glasses of lager drunk in the UK is a continental brand; and about the same amount is shared by Australian, US, Canadian and other overseas brands.



A range of beers: pan-European brands have been difficult to establish

It has been difficult to establish pan-European brands amid such diversity. Heineken, of the Netherlands, the most pan-European of brewers, controls only 2.6 per cent of the market, and the Heineken brand itself accounts for a mere 3.4 per cent.

Carlsberg, the Danish brewer, has an estimated 6 per cent market share, but sales of its eponymous brand account for little more than 2 per cent. These two brewers, both dominant in their own countries, have achieved their prominence in Europe through wholly-owned subsidiaries, acquisitions, joint ventures or licensing agreements in almost every EC state.

Thus Heineken owns Dreher in Italy, Murphy's in Ireland, Athenian in Greece, El Aguilón in Spain, and Française de Brasserie in France, while its mainstream brand is brewed under licence in the UK by Whitbread.

Carlsberg owns Hannen in Germany, and has stakes in Forst in Italy, Unicer of Portugal, and Cruz Campo of Spain. It is forming a joint venture with Allied-Lyons in the UK, and is brewed under licence in several other countries.

With such widespread distribution, and sold as part of portfolios of local products, Heineken and Carlsberg

should continue to grow into true pan-European brands.

Further contenders for such status may emerge from the continuing consolidation of the industry - the growing presence of BSN, the French brewer in the countries of southern Europe, suggests its Kronenbourg brand is one possibility.

But during the 1990s, consumers seem likely to be more adventurous in their tastes, demanding a greater choice of quality beers of all kinds.

Brewers may find it more profitable to cater for strong niche markets than chase mainstream volume.

Such markets are already emerging - in the revival of cask-conditioned regional ales in the UK, in the rediscovery of wheat beers in Germany, and the growing popularity of Belgium's specialty beers seasoned with fruit or spices.

Consumers are relishing the flavours - the malt and hops of English ales or the coriander of Belgian white beer - after the blandness of so much lager.

Some products are acquiring the cachet of fine wines; and they should find an equally appreciative and permanent market.

Philip Rawstone

World investors are keen to secure a foothold in the EC, says Michael Cassell

The attractions are still strong

WHATEVER the political and economic uncertainties currently enveloping the European Community, it remains the target for huge, inward flows of investment aimed at securing a foothold in the world's largest trading bloc.

For years the debate over Europe's future has acquired new and broader dimensions, the EC remains primarily a partnership of trading nations offering those operating within it access to a marketplace of unparalleled potential.

The scale of the market, the diversity of its customers, the prospect for continuing expansion and the promise of relative political and economic stability have combined as critical factors in helping to attract investment from around the globe.

With fears receding that a protectionist Europe will emerge in the wake of the single market - unless final failure to agree the Uruguay round of the General Agreement on Tariffs and Trade leads to global trade warfare - investors have continued to give high priority to raising their exposure to the European marketplace.

In 1991, estimates suggest that total inward investment into the EC countries reached \$65bn, with the US and Japan topping the league of big spenders.

For the US, Europe has long been a main target for external investment, though the ever-present threat to its trading relationship with the community was forcefully underlined with its threat to impose penal tariffs on a range of EC products in the event of a Gatt breakdown.

For Japan, the political crisis over the future of the Maastricht treaty has created considerable alarm. The country's cumulative interest in the EC already amounts to more than \$55bn. Although that is less than half the level of invest-

ment it has in the US, the European market is potentially as large.

Hopes for a balanced, mutually beneficial, political and trading relationship between the EC and Japan manifested themselves in the Joint Hague Declaration of 1991. But the continuing, huge trade imbalance in Japan's favour - \$27bn in 1991 - and the obstacles to doing business to Japan itself ensure that tensions will continue.

Japan's approach is further complicated by considerable variations in the strength of its bilateral relations with individual EC states.

Some EC officials claim Japan still plays off member states against one another when it comes to inward investment decisions.

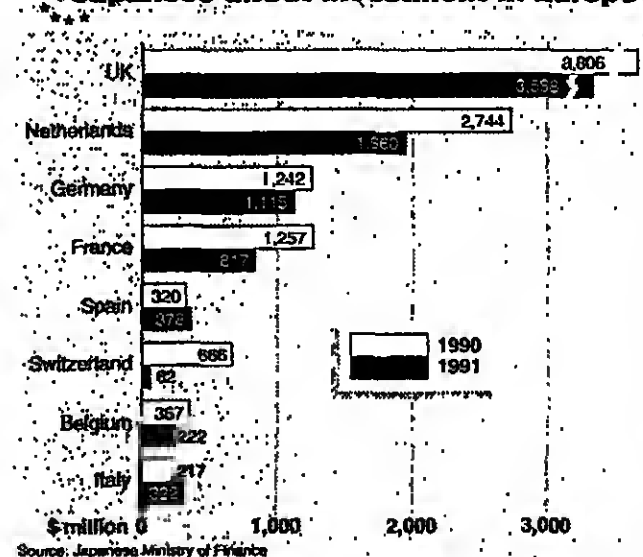
The UK has apparently maintained its position as the single largest beneficiary of the inflow of investment from Japan and from most other non-EC nations. Only the US beats the UK performance as a recipient of overseas funds.

The UK continues to account for around one-third of all incoming EC investment. Its share reached a peak of nearly 40 per cent in 1990.

Japan has almost twice as much investment in Britain as in other EC countries while the UK's share of US investment within the community amounts to more than the combined totals recorded by Germany, the Netherlands and France.

The debate over whether Britain's attractions are a reflection of its innate weak-

Japanese direct investment in Europe



nesses or strengths remains as lively as ever.

While ministers portray its success as a ringing endorsement of its open, free market economy, without controls on currency movements or remittance of profits, critics paint a rather different picture.

The counter-argument suggests that Britain offers investors a relatively cheap base for operations, offering high work-place skills and a labour market unencumbered by many of the obligations set down in employment laws in force elsewhere in Europe.

Britain's isolation in refusing to sign the social chapter of the Maastricht treaty might well reinforce the image, although it may also serve to underline its attractions for some inward investors.

France is the next most popular location for inward investment - accounting for something approaching 20 per cent of the total - with Belgium next on 14 per cent.

The popularity of Germany

will by now have made their principal investments within the European market and are not maintaining budgets at the same level.

Nor does the recent disarray within EC member states over the next phases of European development - combined with the continuing threat that Denmark might yet provoke another crisis of confidence - provide the preferred backdrop for continuing inward investment.

There is also the question of how the community can best exploit the continuing, inward flow of investment funds. The EC recognises the economic imbalances which already exist within its boundaries but progress at evening them out has been painfully slow.

The Commission itself recently acknowledged that regional differences remained comparable with those which existed 20 years ago. The completion of the single market means that capital and labour will increasingly locate where the physical and economic environment is most attractive.

In spite of a doubling of the structural funds, the resources for promoting regional development remain small. The volumes of investment required to help promote broadly-based economic development are enormous but there is scope for encouraging new, inward investment to help redress the existing imbalances.

According to the Centre for Urban and Regional Development Studies at Newcastle University: "EC regional policy needs to be reformulated in such a way as to ensure that the huge amount of investment flows towards the less favoured regions and avoids the currently wasteful practice of national and regional bodies spending vast amounts competing for inward investment."

COMMISSION OF THE EUROPEAN COMMUNITIES

EXPORT PROMOTION TOWARDS EXTERNAL MARKETS

COMPANIES ARE INVITED TO PARTICIPATE IN A POWERFUL PROGRAMME OF EXPORT PROMOTION ACTIVITIES ORGANISED BY THE COMMISSION OF THE EUROPEAN COMMUNITIES

The Programme is designed to:

- Concentrate on difficult markets with high potential growth - The Far East, South East Asia, and the Gulf Region.
- Support priority sectors - High Technology, Telecommunications, Information Technologies, Electronics, Energy, Advanced Manufacturing Technologies, Health and Transport.
- Enable co-ordinated European Community industry participation in an annual programme of key International Trade Fairs.
- Give companies the facilities of individual stands within a European Pavilion, built to a special design, with a common European identity.
- Offer an attractive package scheme to include a range of supporting P.R. activities as well as space and a shell stand.

The Programme promotes the concept of a highly developed technological and efficient European industry - and to help EC companies to create or intensify their business outside Europe. FOR FURTHER INFORMATION, OR TO PARTICIPATE IN ONE OR MORE EVENTS, CONTACT INDIVIDUAL EVENT ORGANISERS LISTED BELOW

EXHIBITION DATES	EVENT	COUNTRY/CITY	ORGANISER	FAX NUMBER
15-18 April	ADDEX health care for disabled and elderly people	Singapore	SBATRO	+65-236 1171
21-30 April	ADDP Abu Dhabi Int. Fair	UAE/Abu Dhabi	BTTF	+32-2-4770465
18-20 June	INTERMACH (machinery)	Thailand/Bangkok	TEM	+66-2-255314
16-19 June	ASIA PRINT PACK PLAS	Singapore	REED	+65-2744666
14-17 September	MALBEE (Construction)	Malaysia/Kuala Lumpur	RRED	+65-2744666
30 Oct-02 Nov	GYTEK (Information technology)	UAE/Dubai	TCMC	+971-4-3064089
07-11 November	SAUDI BUILD	Saudi Arabia/Riyadh	OBS	+44-71-9358625
05-09 December	SAUDI PRINTPACK PLAS	Saudi Arabia/Riyadh	OBS	+44-71-439230
In addition, seminars and conferences are organised within the export promotion programme				
14-21 February	Indian Engineering	India/New Delhi	F.C.S.O.	+44-81-46-7971
11 March	Focus Romania	Belgium/Brussels	SGO	+32-2-5124653
June	Energy Business Forum	Mexico	CADEN	+34-4124-9753

THE EUROPEAN SINGLE MARKET 10

Edward Balls analyses the structure of Europe's unemployment

The wages of rigidity

THE LABOUR market is the Achilles heel of the European economy. High and persistent unemployment across the continent are the most direct, and most distressing, manifestation of Europe's labour deficiencies. But unemployment is just one product of the more general problem of inflexibility and immobility that threatens to hamper Europe's single market.

The OECD, in its latest economic outlook, calculates that total unemployment in OECD European countries will rise to 19.9m in the first quarter of this year. More than 30 per cent of Europe's unemployed are located in EC member countries. The EC unemployment rate is expected to be 10.7 per cent of the total workforce, up from 8.4 per cent in 1990. This quarter's EC rate compares with 7.4 per cent in the US and 2.3 per cent in Japan.

There is surprisingly little national variation in unemployment rates among the largest EC countries. Italy, at 11 per cent, had the highest unemployment rate of the four largest countries in 1992, followed by France with 10.3 per cent, the UK with 10.1 per cent and Germany with 7.6 per cent. But many of the southern European states have much higher unemployment rates with Spain's 18 per cent the highest.

The EC's high unemployment rate is, in part, a reflection of Europe's poor recent growth record. EC gross domestic product is expected to have risen by 1.1 per cent in 1992 compared with 1.8 per cent in both the US and Japan.

But even when growth does eventually return to Europe, the Community may remain hampered by high unemployment. EC unemployment rates have remained at persistently high levels for more than a decade. The average EC unemployment rate in the 1980s was 9.6 per cent of the workforce, up from 4.8 per cent in the period 1974-79. The US average was 7.2 per cent in the 1980s and 6.7 per cent in 1974-79.

Why does Europe have more unemployment than the US? One commonly cited reason is unemployment benefits. In the US, most men are disqualified

from receiving any kind of welfare support after 26 weeks. In Europe, by contrast, unemployment benefits tend to be both more generous and more open-ended.

The second reason is the relative rigidity of real wages in Europe compared with the US because of Europe's more regulated labour markets and more effective trade unions. The OECD calculates that the amount of unemployment needed to keep inflation from rising is much higher in Europe than in the US, Japan or Sweden. To reduce inflation by one percentage point, unem-

ployment rates similar to those in Europe. Only Japan and Sweden have low non-employment rates by OECD standards.

In continental Europe, this rise was largely reflected in the unemployment statistics. Elsewhere - the UK, Australia, Canada and Sweden - the rise in activity was at least as important as the rise in unemployment.

The conventional view that Europe has a more serious problem of joblessness than the US is misleading. The fact that the US has less generous unemployment benefits and

the legal economy. But the advantage is a much more impressive record of employment growth, particularly for women and young people, albeit in lower paid and often part-time occupations.

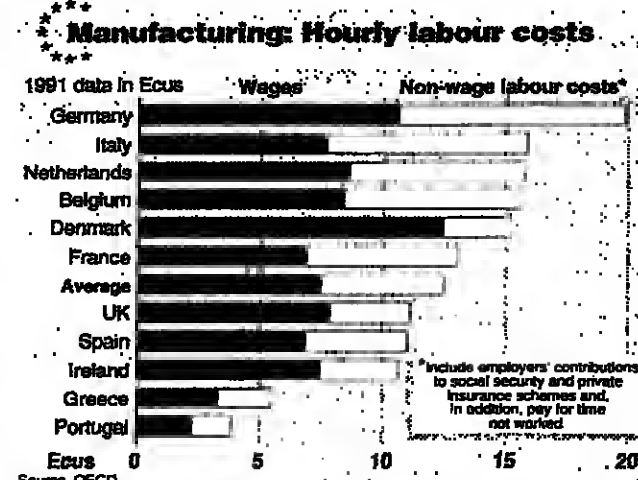
US total employment grew by an average 2.6 per cent a year between 1983 and 1989, compared with just 1.0 per cent for the EC. Employment in Britain's deregulated labour market grew by an average 3.0 per cent a year over the same period. Both the UK and US have higher female participation rates and lower women and youth unemployment rates than continental Europe.

But the US has one additional and unambiguous advantage - the mobility of its population. The pattern of US employment growth is not equal across states but the US does not have persistent high or low unemployment regions. Regional problems caused by unequal rates of economic growth are offset by migration.

Research by Mr Larry Katz and Mr Olivier Blanchard, published last year by the Brookings Institution, shows that if employment in a particular state falls by 1,000 in any year, then, on average, 300 workers stay unemployed, fifty drop out of the labour force and 650 leave the state. Eventually, out-migration erases the effect on unemployment and participation rates.

Migration does not play this equilibrating role to anything like the same extent in European countries, let alone across national borders. In 1987, 2.8 per cent of the US population changed their state of residence compared to 1.1 per cent of Germans who changed their region of residence. 1.3 per cent in France and 1.1 per cent in the UK.

The European single market should encourage the creation of new jobs in the Community but the geographic distribution of these jobs is unlikely to be evenly spread. The inflow of migrants from eastern Europe and north Africa may improve the currently low levels of mobility of EC workers. But, for now, the relative immobility of the EC workforce remains an important barrier to economic integration.



ployment must rise by more than twice as much in EC countries as in OECD countries overall, and by four times more than in the US.

Yet, these unemployment rates tell merely part of the unemployment story. They only include people who are available and looking for work. They exclude the "economically inactive": people who have no jobs but have given up searching for employment. In fact, there has been a sharp rise in male inactivity across the developed world over the past decade, particularly among older and younger men and the unskilled.

Non-employment rates, the sum of the unemployed and the "inactive" as a percentage of the population, are much more constant across countries than unemployment rates. The US, Canada and Australia have

more flexible real wages does not mean that the US has less non-employment. Instead, they explain why much of this US non-employment fails to show up in the jobless statistics.

In the US, where wages are very flexible, the real wages of the lowest-paid 10 per cent of workers have fallen by 30 per cent since 1970. Very low relative wages for unskilled jobs, and the absence of income support for single men, help to explain the rise in crime among less educated men.

In continental Europe, by contrast, the relative rigidity of wages, and high unemployment benefits has prevented unskilled real wages from falling but employers have been unwilling to hire the unskilled at those wages.

The downside of America's less regulated labour market is more non-employment outside

Pledges to workers have mixed success, says David Goodhart

Slow growth limits benefits

THE "social dimension" of the European Community was relunched by Mr Jacques Delors in 1989 to win the support of organised labour for greater economic integration and to address the fear that labour as a whole could lose out from the free market drive of the single market. It has been remarkably successful in achieving the first goal, rather less so in achieving the second.

The 1989 social action programme contained a series of measures, from improving health and safety, establishing minimum rights for pregnant women, young people and part-time workers, to imposing EC-wide limits on the working week. But thanks to slower growth throughout the EC, and successful blocking by the UK government, few of the important measures have so far become directives.

If the Maastricht treaty is passed, its "social chapter", which Britain has opted-out of, will in theory make it easier to push through more social and employment legislation by majority vote. But that also looks unlikely at present.

Most member states are reluctant to adopt any policies that might reduce competitiveness or provide succour to Britain, regarded as the "Hong Kong of Europe". And even within the European Commission's social affairs Directorate-General 5 the leading strategists of the social dimension privately accept that a less ambitious approach to legislation is required.

What is the case for the social dimension? Some supporters, especially in the richer EC countries, have argued that the harmonisation of minimum rights at work across the Community is required to prevent "social dumping". That means capital flowing to areas where labour is least protected, triggering downward pressure on standards in other countries.

There is little evidence that an increase in social dumping is accompanying the arrival of the single market. That may be because the low wage economies, such as Spain, Portugal and Greece, have quite strictly regulated labour markets, making them unpopular with big business. It may also be because unit labour costs are remarkably similar all over the EC, in other words the high wage countries justify higher pay scales with high productivity while low wage countries have low productivity to match.

There has, however, been a big increase in cross-border takeover activity by EC-based multinationals, inspiring the draft directive on European works councils, designed to give employees an EC-wide voice in corporate affairs.

But apart from a few highly specialised groups, such as airline pilots, there is little sign that EC-wide collective bargaining or an EC labour market is emerging. Only 2m EC nationals work permanently in another EC country and the number has actually declined in the past 10 years.

Yet there is a broader, more "political", case for the social dimension as a counter-balance to the forces unleashed by the single market. Mr Robert Lindley, of Warwick University, summarises it thus:

"While capital is more mobile than labour, financial capital is more mobile than



Coal at Calais docks: rising imports undermine European jobs (picture: Colin Beere)



Industrial capital. Combine the rigours of the single market with those of free capital movement and there arises a situation in which financial markets have apparently been handed much greater power to impose their judgments of performance and priorities upon the workings of the other constituents of the EC economy."

The measures outlined in the social action programme are an attempt to ensure that the judgments of one of those other constituents - labour - do not go completely unheard. But by stressing harmonisation against de-regulation and EC-wide rules against subsidising the architects of the social dimension have risked trespassing on an area of economic life strongly coloured by national differences.

There are 12 different systems of industrial relations in the EC and while there are patterns of similarity which link some of them, there are also big differences in the role of the law, the power of unions, and the structure of working life.

Southern member states, for example, tend to have low female participation and little part-time work. Spain and France have weak unions but strong labour laws. Most of the northern European states have strong labour laws and institutionalised "social partnership" collaboration between organised labour and capital.

The Christian Democrat/Social Democrat consensus that prevails in most continental European countries invariably gives labour a powerful institu-

tional voice even where collective bargaining is weak.

Britain, with its laissez-faire regulatory framework but historically strong (although now weakened) unions, is out on a limb. And its liberal hire and fire rules, widespread use of "atypical" work patterns, and long working hours, make it the most affected by the regulatory regime the Commission has been trying to impose.

Although the Commission denies it is trying to impose a particular model of industrial relations on the EC it clearly leans towards the Germanic model with its strong labour laws and legally-backed voice for employees.

Whether, in the longer run, the Commission succeeds in establishing a "European model" remains to be seen. There is some evidence that the "Germanic" model, already heavily plagiarised by Holland and Belgium, is spreading into France, but otherwise there has been little spontaneous convergence. Indeed, if there has been a common trend over the past decade it is towards de-regulation and a weakening of social partnership, although that has gone further in the UK than elsewhere.

Looking ahead, European labour faces a tough time. European monetary integration will impose a single inflation and interest rate, and rule out devaluation, with the result that the strain of economic adjustment will fall on wages and employment in the weaker countries. And without co-ordinated wage increases across Europe those countries with high unit labour cost increases, such as Britain and Italy, will see lost competitiveness flow directly into job losses.

The social dimension affords little protection against the potentially dramatic effects of monetary integration. But it should not be written off completely and, interestingly, it survived virtually unscathed from the Edinburgh summit review of subsidiarity. Currently, in the UK, the government's drive to contract out central and local government services has been thrown into confusion by one of the oldest pieces of EC employment legislation, known as the acquired rights directive.

The social dimension is undoubtedly suffering a cyclical down-turn, as it has done before, but it has also established itself as a fact of life across large areas of working life in the EC.

Corporate strategy: long range planning from Japan

How foresight saved money

FOR TOSHIBA, the Japanese electronics group, the removal of most of Western Europe's internal tariff barriers on January 1 was just the latest stage in a long and unhurried series of changes in one of its biggest markets.

Almost a decade ago, the company established a task force in Tokyo to study changes taking place in the European Community. Six senior managers from departments such as corporate planning, finance and accounts and personnel spent a year studying the issue.

They filed a many-volumed report to top management in May 1985 which recommended, among other things, the creation of a regional co-ordination centre in Europe.

In October 1989, a small European co-ordinating office was established in central London. Mr Takeo Fujii, the leader of the team which wrote the 1985 report, became its head.

A branch office was soon opened in Brussels. It has just three staff, one Japanese, one local recruit, picked for his knowledge of the European Commission and its directives, and a secretary.

One reason for the gentle pace and limited resources given to the project was that

Toshiba was growing quickly in Europe's fragmented markets in any case.

Individual operating divisions had already set up shop in Europe. The first manufacturing centre, for televisions in Plymouth, Devon, was established in the 1970s. Manufacturing is now spread across Europe, with semiconductors and VCRs made in Germany and microwave ovens and pho-

distribution centres in individual countries before going to dealers and shops. The output of office automation equipment, for example, is co-ordinated from Düsseldorf, but products are routed via warehouses in each country.

It is a system that is likely to continue for some time, says Mr Fujii. Markets still have national characteristics, especially for products that are

TOSHIBA

retailed. France has its own technical standards for televisions. Germany has ultra-strict rules on the design of microwave ovens, and its consumers have, until very recently, refused to buy flat screen televisions, preferring the older, more rounded screens. Toshiba even had to buy its picture tubes for the German market from European manufacturers Thomson and Philips.

There are exceptions. Some television picture tubes are bought by other manufacturers. Since there are a small number of industrial buyers the tubes are shipped directly to them from plants in the US, Japan or Thailand.

Mr Fujii says there will be few changes in procedures in the short term. The company will have to deal with new forms of paperwork, dealing with sales tax and import/export statistics, and is having to set up new systems to cope. "Once the computers have been set up, I hope costs will be lower," he says.

In the longer term, some parts of distribution may be centralised. The company is considering cities such as Hanover or Barcelona for the establishment of a "distribution logistics" centre, especially to deal with products that are imported from outside Europe. Eventually, it should be possible to distribute directly from, say, Germany, to retailers in Italy or Spain. But Mr Fujii does not believe this will happen soon in spite of a widespread belief among colleagues in Japan that 1993 has ushered in a perfect single market in Europe.

"Most Japanese may dream of a unified [European] market, but personally I see only small changes," he says. "For the time being, country-by-country structures will remain. Different markets have different needs. We are not in a hurry."

Daniel Green

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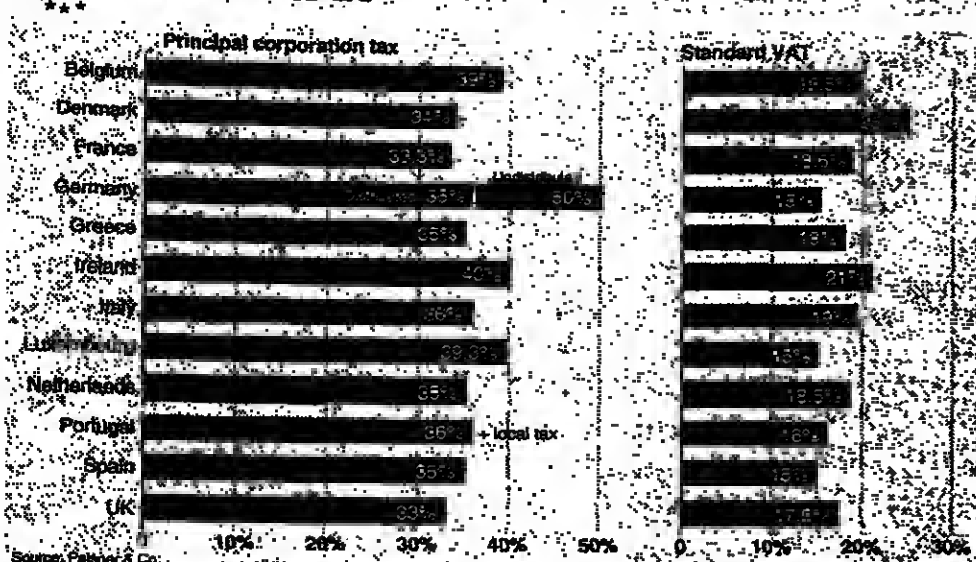
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THE EUROPEAN SINGLE MARKET 11

Jonathan S Schwarz traces the uneven progress towards a uniform taxation system

There's a long, long trail awinding

Tax rates in the EC



HARMONISATION of tax systems in the European Community has been on the political agenda since the EC's inception.

Fiscal barriers have been identified as an important inhibition to intra-community trade and investment. However, since revenue-raising by governments is regarded as at the heart of sovereignty, the development of a European tax system has been a long and tortuous process.

When the Single European Act was passed in 1987, it was recognised that taxation, unlike other targets for harmonisation, was so close to the states' national interests that majority voting did not apply. As a result, the unanimous approval of member states is required to introduce new EC tax law.

Nevertheless, a unified tax system is now discernible, particularly in the indirect tax field, with new items being added to the agenda all the time.

The longest standing element of European Community tax law is the common customs duty regime. A single Community customs law sets rules for the import of goods into the community and provides for their valuation. European Community regulation specifies the valuation of goods for customs purposes.

Although implementation and collection of customs duty is handled by member states, collaboration is ensured by the customs co-operation council. Once goods have crossed the customs frontiers around the community, they enter into free circulation and may be traded freely without further customs duty. As part of the single market, agreements have now also been reached on the harmonisation of excise duties relating to tobacco, alcohol and fuel oils.

Value added tax (VAT) is perhaps the real European Community tax. It was introduced into community law by the first VAT directive in 1967 and all states were required to adopt a common system by 1972.

Not only is VAT established under community law which all members are required to implement, but because a portion of the tax collected is paid to the community directly, and forms part of its own resources, it is also a European tax.

The introduction of the interim VAT regime on January 1, 1993 was a major step towards disregarding intra-

community boundaries in determining how the supply of goods should be taxed.

Although the method adopted is complex, it is designed to move towards a system where transactions between member states will be taxed in the same way as transactions within a single member state.

While the adoption of a 15 per cent minimum standard rate of VAT has required only Germany, Luxembourg and Spain to increase their rates, psychologically it has reinforced the idea of VAT as a common European tax.

Furthermore, the European Court of Justice has shown lit-

tle tolerance for member states which attempt to impose turnover taxes that do not comply with community law, or fail to implement the tax directives properly. Virtually no member state has escaped judgment on this.

Direct taxation has not proceeded at the same rate as the indirect tax system. Although proposals for corporate tax harmonisation have been around for more than two decades, it is only at the beginning of 1992 that two corporate tax directives entered into effect.

The parent and subsidiary companies directive aims at eliminating the withholding of taxes on payments across

member states' borders and ensuring double taxation on distributions paid by subsidiaries to their parent companies in other member states.

The second directive is designed to facilitate tax free cross-border corporate mergers, acquisitions, divisions and share-for-share exchanges. Both directives have, however, been criticised as being incomplete and somewhat unclear as to their precise scope and meaning.

Member states have also been slow to introduce implementing legislation, and the manner in which the directives have been implemented varies noticeably from one member state to another. As a result, the term "harmonisation" is perhaps inappropriate. The Treaty of Rome talks of approximation of laws and this is a more realistic description of the manner in which these directives actually take effect.

Thus while the two directives may present a picture of a common system, in practice wide variations mean that the rules of member states differ significantly and only have some common features.

In the case of the mergers directive, implementation is further inhibited by the fact that in several member states, corporate law has not kept pace with tax developments, and therefore transactions which are contemplated under the directives cannot be implemented under existing corporate law. Other difficulties arise because the directive only covers corporate taxes, whereas in practice such trans-

actions are often affected by a variety of other taxes notably stamp duties, registration and transfer taxes.



and many doubt whether this is sufficient time to test the system thoroughly.

While success in achieving a unified system in the direct tax field has been limited, in practice there has been convergence between European corporate tax systems in a number of respects. The first and most obvious is an alignment of mainstream corporate tax rates.

Most countries have tax rates between 33 and 40 per cent. In addition, most member states, at least during the 1980s, attempted to broaden their tax bases and reduce rates. A variety of incentives, such as investment tax credits and accelerated depreciation, have been eliminated generally.

While the taxation commissioner, Mrs Christiane Scrivener, has approved this process some countries, such as Belgium, have been concerned that excessive tax competition between states would cause undue pressure to be brought on the governments. This has not prevented Belgium along with Luxembourg from entering into competition with the Netherlands to produce the ideal European holding company location.

The Ruding committee appointed by the Commission to consider the future of direct tax harmonisation in the EC produced a detailed report containing ambitious proposals for a European tax system whose introduction was to be geared to the stages of economic and monetary union contemplated by the Maastricht Treaty.

Uncertainty about Maastricht and turmoil in the currency markets, which has thrown into question the very existence of the European exchange rate mechanism, has sharply halted progress towards economic and monetary union.

The Commission has, however, proposed a more modest programme of measures designed to facilitate cross-border transactions within the community, including extending the current parent subsidiary directive to all forms of company and to payments of interests and royalties. A proposal has also been made to enable European groups to use cross-border losses. Mrs Scrivener believes that such measures would go some way towards eliminating tax disadvantages of cross-border investment and trade.

With the Commission under fire for its alleged tendencies towards centralisation, she is reluctant to push member states too far. Jonathan S Schwarz is a partner of Painsier & Co. City solicitors and Editor of the FT World Tax Report

Corporate strategy: a Franco-Swedish combine hits the road

Classic industrial response to the open market place

THE nearly three-year-old alliance between Renault and Volvo, the French and Swedish car and truck makers, is a classic industrial response to the competitive challenges and opportunities thrown up by the single market.

When the pair exchanged minority stakes in 1990, they cited as reasons the growing competition in their industry, the costs of stringent environmental rules and the increase in investment needed to keep pace with technology.

The purpose has been to share these burdens by spreading costs and ultimately to work towards a full merger, which both partners would dearly like to achieve.

A merger looked possible early last year but was subsequently shelved due to changes in the French government's attitude.

Losses at Volvo provoked

the former government of Mrs Edith Cresson to have second thoughts about the deal. The present government, under Mr Pierre Bérégovoy, has no such doubts, but it does not have the opportunity to pass the legislation needed to pave the way for a merger because of the closeness of the legislative

election in March.

If the partnership has been a political balancing act, it has also required some fine judgment in business terms. Renault and Volvo have had to strike a delicate balance between their pledge to act as if they were one company, and the vital need to keep their brand identities separate, so as not to steal shares of a declining market from each other. This explains why the alli-

ance has made more progress in their car businesses, where Renault and Volvo occupy clearly different markets, than in trucks, where they compete.

Like the single market itself, the Renault-Volvo alliance has advanced gradually in small steps, which look uninspiring on their own but add up to

much progress. Renault executives say the results have been far more encouraging than they expected.

The first step, early in 1990 after the agreement to exchange shareholdings, was the creation of a joint car and truck research centre in France. This is studying joint components like gearboxes and rear axles for trucks and common stamped steel sheets for truck cabs. In cars, the

centre is working on areas like safety, new materials and alternative fuels.

Another early step was the establishment of joint component purchasing committees for both cars and trucks, which have since evolved into formal joint ventures last June, to represent both companies to their main suppliers.

This could turn out to be the biggest cost saver in the alliance, since the partners' car making divisions already buy 15 per cent of components from common suppliers and components represent two-thirds of Renault's manufacturing costs. In trucks, the partners say 60 per cent of their suppliers are shared.

Volvo estimates that, as a result, its group will save \$1800m annually in the next two to five years, though Renault has not given a precise estimate.

The partners have also agreed to exchange some car engines, saving Renault an estimated FF180m on its development bill to date. Volvo's Dutch plant is to take a Renault diesel engine and economy two-litre petrol driven unit, while Renault is to take a Volvo two-litre 16-valve petrol engine for a future model.

There are no plans to swap truck engines because they feel that the engine is a part of a truck's marketing identity. There will, however, be some joint products in specific areas, always under the proviso that they will keep their marques separate. A jointly developed range of top of the line executive cars, for example, is planned for sale in Europe by the year 2000.

They will use common platforms, engines and gearboxes, but have different body styles and be sold as separate marques through the partners' respective dealerships.

There are no such plans for a common truck, though the pair are jointly developing a low floor commuter bus, due to come on to the market this year or next.

Again, it will be sold under different names, either as Renaults, the French bus maker controlled by Renault Vehicules Industriels and Volvo Bus, or as Volvo alone.

On marketing, the pair partially merged their French car and light commercial vehicles sales divisions just over a year ago, but have no plans to do so in trucks.

Overall, the general pattern at Renault and Volvo has been to combine forces where there are clear common interests, but to stay apart where their interests might clash. It is a difficult balance to get right, just as much between companies as between nations, as the recent history of the European Community itself shows.

William Dawkins

Andrew Hill on the obstacles to a single law for companies

Divided we still stand

THE European Company Statute (ECS) is nearly a quarter of a century old, but it has not yet been born.

The proposal, dreamed up by the European Commission in 1970, was supposed to provide a single corporate structure for multinationals in the EC. Instead of having to find their way around different national systems and set up a network of PLCs, SAs, NVs, AGs and SPAs, multinationals would be able to establish a single SE - "Societas Europaea" - under Community law. Lawyers' fees would be slashed, administrative nightmares banished and large European companies could get on with making money.

But what seemed a smart idea - or just plain common sense - has repeatedly stumbled on the very national differences it hoped to eliminate. Twice revised since 1970, ECS was even added to the fast-track single market programme only to suffer the indignity of being overtaken by newly-made directives in other fields. As 1993 begins, and despite member states' efforts over the past 18 months, the ECS is still under negotiation.

The ECS would be voluntary, but the principal obstacle to agreement has been the proposal's detailed requirements for employee participation in the management of SEs. Britain is particularly opposed to such obligations, while Germany, which already has strong rules on worker participation, is in favour.

"In theory, people are interested in the idea of incorporating as a European company and that's an attractive prospect," comments one British official. "But when they see what's on the table they are less impressed."

At the most recent ministerial discussion of the ECS - under British chairmanship last November - it was agreed that any company seeking to register would have initial subscribed capital of Ecn120,000, and would conform to the definition of public limited companies in the member state of registration. But the ministers made no headway on the question of worker participation and will have to return to the ECS during the next six months, under the Danish presidency.

Yet the plight of the European Company Statute is as nothing compared to the fate of its company law siblings in the original 1985 single market programme. Indeed, this is the principal area where the ambitions of Lord Cockfield, then internal market commissioner, have not been realised.

Early on, member states adopted measures which allow loose collaboration between companies, under the clumsy-sounding title of a European Economic Interest Grouping (EEIG). This initiative has enjoyed a modicum of success since it came into force in July 1989 - some 350 EEIGs have been created - but, as the

Commission itself makes clear, "it is an instrument for economic co-operation, not for integration".

Member states have also adopted measures on disclosure requirements for company branches set up in another Community country, a directive enabling sole individuals to operate as a private limited company, and amendments to earlier directives on the content, auditing and publication of accounts.

But there has been stalemate in the principal areas for har-

takeover bids. This directive is backed, among others, by liberal economists, who believe there will be no genuine free movement of capital in the Community until corporate predators can hunt across borders following a single EC takeover code. But its potentially far-reaching proposals for a single threshold - above which bids would have to be launched - and harmonised rules on the content and publication of offer documents may never see the light of day. At the Edinburgh summit last

Attempts to forge a Europe-wide company law remain stalemated after 25 years, and this remains the main area in which Lord Cockfield's Single Market dreams have not been realised

monisation of company law:

● Fifth company law directive. This is a measure which goes back nearly as far as the ECS, and covers roughly the same ground. The difference is that it would establish a compulsory European statute for virtually all public limited companies. As a result, it has been attacked by the same member states which oppose the ECS. For months it has been regarded as a "low priority", even by Brussels, which has chosen to concentrate on the ECS.

● Tenth directive on cross-border mergers. Another low priority for the Commission, this measure has also fallen foul of British objections to worker participation because it allows member states to prevent cross-border exchanges of shares if employees are deprived of rights of representation as a result of the deal.

● Thirteenth directive on

month, EC leaders agreed that the controversial measure went into "excessive detail".

If it survives at all, the takeover directive will be replaced by a list of "general principles" which would then be fleshed out by individual member states.

But in Brussels and beyond, there are few tears being shed about the apparent failure of the single market company law programme. The main reason for this is that neither Commission nor member states any longer regard the measures as essential to the operation of the single market.

For one thing, much of the anti-gravity of EC corporate law had already been adopted by the time the single market programme was launched. The series of unnamed company law directives are numbered one to 13. Some of those measures have sunk without trace, but others have been operating

since the 1970s.

The first company law directive - which lays out harmonised publication requirements for the incorporation and winding-up of companies - was adopted as early as 1968. In addition, other single market measures, aimed, for example, at eliminating double taxation for companies with subsidiaries in other EC countries, have helped ease the burden for genuinely European corporations.

More importantly, much of the corporate restructuring and economic boom predicted by advocates of the single market has already happened - largely without the aid of a harmonised European company law and well ahead of the 1993 deadline.

As a recent upbeat Commission assessment of the programme points out, mergers and acquisitions involving companies from different EC countries increased threefold between 1984 and 1989 - while the value of such deals rose by 700 per cent.

"All the available evidence points to one inescapable conclusion - EC business has moved swiftly to make the most of these new possibilities," says the report.

There is a third reason why proposals to harmonise company law now appear to be merely the icing on the single market cake, and therefore dispensable: the current recession has taken the edge off corporate deal-makers' appetites, reducing the pressure for a single European company statute, or a single takeover code. But assuming that recession lifts and the single market takes off, the ECS may yet get the chance to prove its worth.

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THE EUROPEAN SINGLE MARKET 12

Retail banks prefer to stay in their own national High Streets, writes Robert Peston

A non-migratory species

ANYONE walking down the high street of a provincial European town is unlikely to encounter a foreign bank.

In Margate's high street, there are branches of Midland, Lloyds, National Westminster and Barclays. Across the channel in Dieppe, Crédit Lyonnais, Crédit Agricole and Banque Nationale de Paris are to be found.

But the French banks have not migrated en masse to the UK nor have the British ones to France.

This may seem odd, given that banking is regarded as one of the more international industries. Indeed, the provision of banking services to big companies became a transnational business long before the European Community single market programme began to take shape.

However, retail banking - providing services to individuals and small companies - is still on the whole a domestic business. A range of cultural, tax and regulatory obstacles have combined to prevent the creation of a single market in retail banking products.

A typical example of a barrier to international competition was encountered recently by the UK bank Barclays in France. In the autumn, it tried to get around a French government ban on interest-bearing



directives which come into effect on January 1 will do nothing to remove such barriers to competition. They relate mainly to the levels of capital which EC banks must have to continue in business (The Own Funds and Solvency Ratio directives) and the way in which banks are supervised (the Second Consolidated Supervision Directive and the Second Banking Directive).

The Second Banking Directive is the most important new EC banking legislation. It creates a "passport" for EC banks, which allows any bank authorised to do business in an EC country to set up branches in another EC country, without the need to get the permission of the supervisor in that other country.

In theory, therefore, it reduces the costs and complications for EC-based banks of expanding within the EC. An example of a cost-saving move which some banks are contemplating as a result of the directive is to convert various subsidiaries scattered throughout Europe into branches. This would release capital held by each of the subsidiaries for use by the parent bank.

The directive will have more significant ramifications for

bank supervisors. The Bank of England will for example spend far less time monitoring the financial affairs of branches of foreign EC banks. The Bank's supervisory department will continue to take an interest in the liquidity of such a branch, but responsibility for monitoring its financial health in a more detailed way will rest with the parent bank's domestic supervisor.

Because there remain significant obstacles to success in transnational retail banking within the EC, no

New EC rules allow any authorised bank to open branches in another EC country without the need for local permission

bank is currently engaged in developing a Europe-wide network of branches.

Though a number of banks, such as Barclays, National Westminster, Crédit Lyonnais and Deutsche, have retail networks in different countries, they have typically managed each country's network as an autonomous business - with its own local brand name, financial system and management.

Only one bank has

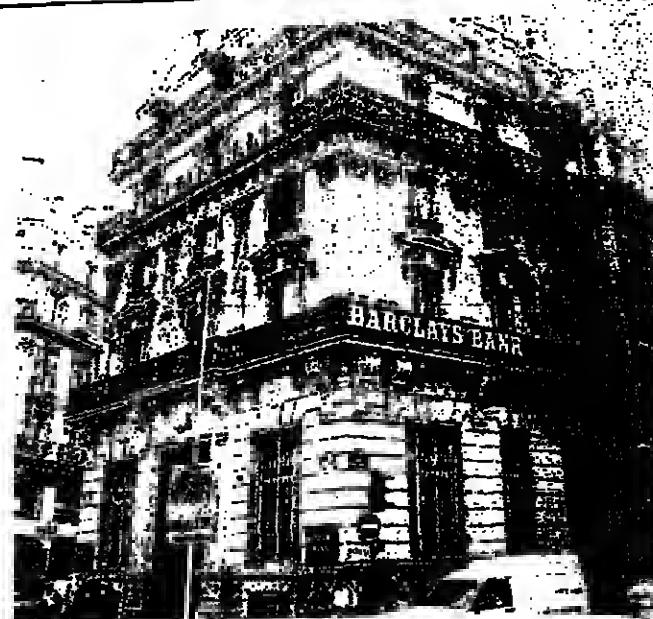
attempted to use its own brand name, system and products in branches scattered throughout several European countries. Paradoxically this bank is not European, but is America's Citibank.

The record of Citibank's European operations has been patchy. For the time being, therefore, European banks may use computers rather than expensive branches to deliver services across frontiers within the EC.

The way forward may have been shown by Royal Bank of Scotland, which has developed an electronic system, IBOS, for linking its branches with those of Crédit Commercial de France, Spain's Banco Santander and Banco de Comercio e Industria in Portugal.

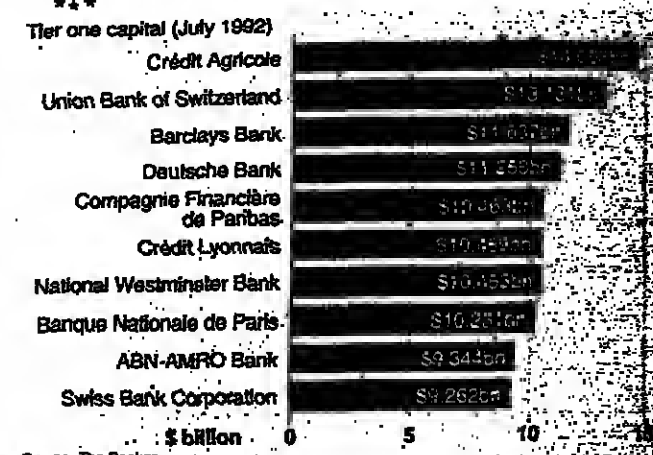
The idea is that any customer of one of these banks, whether a company or individual, can have access to a full range of banking services even if he or she is travelling abroad within Europe.

Although RBS's plan for EC banking may not be Napoleonic in its ambition, it has the virtue that the costs of IBOS are modest - which is reassuring given the chequered history of most banks' ventures outside their home territories.



Barclays Bank in central Paris: retail banking is still small scale

Top 10 banks (EC & Efta)



Corporate strategy: a Franco-British bid for a place in the power game

Realignment in a world market

AT FIRST glance, it seems surprising that the move towards a single market was not a large factor in the creation in June, 1989, of GEC Alsthom, one of Europe's big three power engineering and transportation equipment groups.

The formation of the company from the power and transportation product businesses of the UK's GEC and what was then CGE of France owed more to developments in the world markets for these products, the need to be big enough to continue financing product development and compete internationally, and the requirement to reduce manufacturing overcapacity.

But the company recognised that Europe was to be its home market, even if the single market was not predominant in the

decision to merge. About 60 per cent of sales are to countries within the EC, and GEC Alsthom expects the figure to stay between 50 and 60 per cent in the next few years.

GEC Alsthom's organisation - a Dutch holding company and national companies - was driven by the existing legal and fiscal regimes rather than any potential implications of a single market. But the company's industrial strategy was to become as competitive as possible by the development of areas of excellence without

regard to geographic location, through a series of multinational product-driven divisions.

A clear example of this is in steam turbines and generators, where GEC Alsthom has concentrated on four specialist units to get the benefit of R&D rationalisation and volume manufacture, and to maximise the use of fixed assets. "The consequence of this," it says, "is that we only have a European product and no longer have an exclusive British or French turbine generator."

From its earliest days, GEC Alsthom was also keen to grow its European base by expanding outside its two home countries. In particular, it has made acquisitions in Germany (including two boiler makers in eastern Germany), in the Spanish rail transport industry, and in Italy, Belgium and Switzerland.

Three years on, the company has no reason to change its structure. "We always thought that, even with the emergence of the Single Market, a strong local market close to the customers would be a plus and it

still proves to be correct. Beyond that our choice in running a company through a series of multinational product-driven divisions has proved

GEC ALSTHOM

a very sensible decision in the light of the Single Market."

One of the advantages for GEC Alsthom in taking this approach is in dealings with a single market that varies from

product to product in its "singleness". Assuming that the EC continues to exist in something like its present form, the company suspects a "substantial implementation" of a single market by the end of the century.

In the meantime the company has to deal with sectors such as the rail industry, where national standards, operating practices and the dominance of a single customer have perpetuated a system where suppliers and customers have worked together

to develop products for domestic markets.

But similar relationships in the power industry are now being weakened, at least in the UK where the power industry has been privatised, and elsewhere in Europe with the emergence of build-and-operate private sector power stations.

The company has no doubt that, as a European company with only about 20 per cent of its capacity outside the EC, it is much better in competitive terms to be within the single market than trying to penetrate from outside.

That presence could become more important for large engineering companies such as GEC Alsthom in view of the EC's new rules for opening up public procurement contracts to competitive bidding. These

will continue the process of loosening the close ties between suppliers and public customers in some European markets.

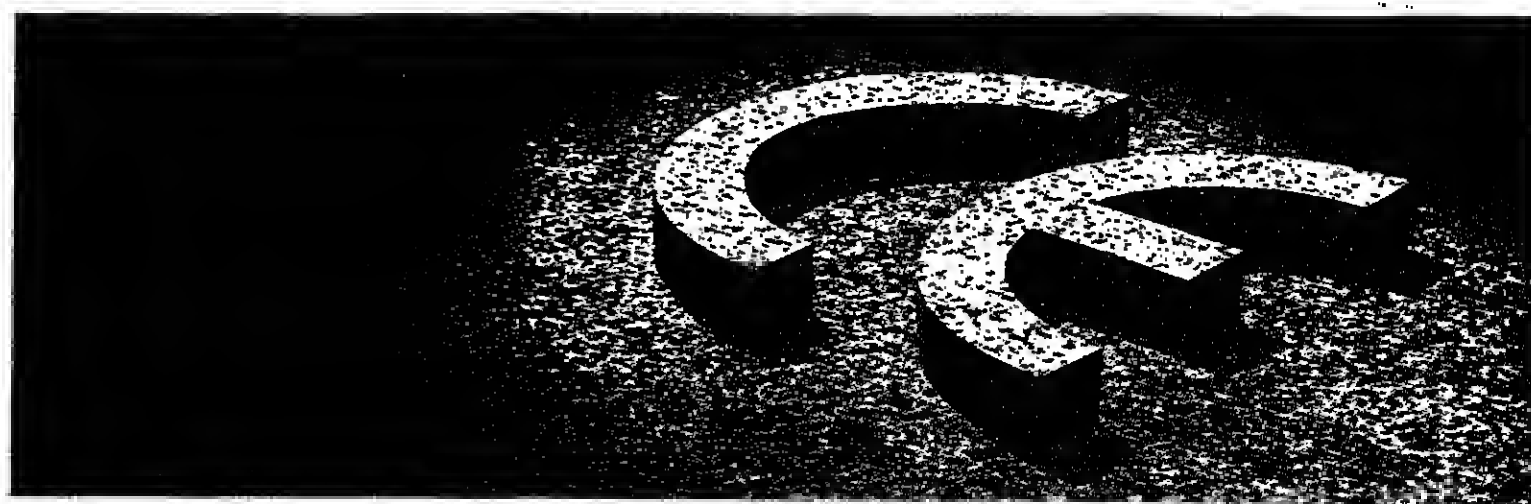
Looking back on the past three years, GEC Alsthom says it has learnt from the experience of operating in the EC's different domestic markets, and has been able to increase the amount of inter-country activities on particular projects. "Such lessons as we have learnt as the single market approaches have been learnt because the people who make up the management of GEC Alsthom have succeeded in fusing together their individual experience as Britons, Frenchmen, Germans, Spaniards, Belgians, or other nationals."

Andrew Baxter

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